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Politics this week

Feb 28th 2002
From The Economist print edition

A Saudi solution?

Saudi Arabia's land-for-peace proposal, which may be considered by Arab leaders at a summit on March 27th and 28th, gathered steam. President George Bush telephoned Crown Prince Abdullah. Javier Solana, the EU'S foreign-policy chief, flew to Riyadh. Even Ariel Sharon came under Israeli pressure to react favourably. Meanwhile, Israelis and Palestinians continued to kill one another. Eight Palestinians were killed, and 90 wounded, in an assault on two West Bank refugee camps.

See article: Israel, the Palestinians and the Saudi plan

Iran received Hamid Karzai, Afghanistan's leader, and said it had expelled Gulbuddin Hikmatyar, an opposition Afghan warlord. At home, several imprisoned students were freed or had their sentences reduced, but the main student organisation was paralysed by a hardline takeover.

Jonas Savimbi, Angola's rebel leader, was killed by the army. George Bush urged President Jose Eduardo dos Santos to seize the chance to make peace with UNITA, Savimbi's party and guerrilla force.

AP

See article: Peace prospects in Angola

Morgan Tsvangirai, Zimbabwe's opposition leader, was briefly arrested and, he said, charged with treason for allegedly plotting to assassinate President Robert Mugabe. For evidence of the charge, the government offered a crudely doctored videotape.

See article: Mugabe's rival charged with treason

Marc Ravalomanana, who claims he won **Madagascar's** election in December, declared himself president and appointed a prime minister. Didier Ratsiraka, his rival and incumbent president, denounced the move as illegal and called for a run-off vote.

Morocco threw out an idea floated by Kofi Annan for partitioning **Western Sahara**. In his latest report to the UN Security Council, Mr Annan, expressing frustration at the continuing impasse, said the Polisario Front might now be ready to talk about partition.

Blueprint for Europe

The **EU's** constitutional convention opened amid salvoes of ideas for running an enlarged EU. More power to national governments, said Germany and Britain. We small states risk being sidelined, complained Finland. So do we, said the commission.

See article: The EU's constitutional convention

Silvio Berlusconi, **Italy's** prime minister, appointed a conservative considered sympathetic to the government to run RAI, the state broadcaster.

See article: Silvio Berlusconi and Italian television

A presumed **terrorist bomb** (no casualties, no known bombers) went off in Rome. Several Moroccans were arrested, bringing the total to nine, on suspicion of planning a chemical attack on the American embassy in the city.

In Spain's **Basque** region several mayors from ETA's political wing said they would not stand for office again unless it stopped killing. Talk was heard of a fresh ceasefire.

Denmark's free-market government named **Bjorn Lomborg**, reviled by greens worldwide for not believing that global eco-disaster is round the corner, to head a new office of environmental assessment.

See article: Bjorn Lomborg's controversial new job

Fresh from two scandals over business buying of political influence, **Britain's** government rode out a third: a clash between the transport minister and his chief press officer over the latter's "resignation". Tony Blair backed his minister's version of events—at a price: few but Labour loyalists did. They were rewarded with another chance to vote for a bill to ban foxhunting.

See article: Row over the transport minister and the truth

Russia's foreign minister reacted angrily to an announcement from Washington that American troops would be sent to train anti-terrorist forces in ex-Soviet **Georgia**.

See article: Can Russia and America co-operate in Georgia?

A row broke out over post-war Czechoslovakia's "**Benes decrees**", under which ethnic Hungarians lost their property and 2.5m ethnic Germans were expelled. Fresh from angering Germany by praising the decrees, the Czech prime minister, Milos Zeman, pulled out of a planned summit of four EU candidates in Hungary. So did Slovakia's leader. The summit was called off.

Drugs and rebels

Reuters

After President Andres Pastrana ended abortive peace talks, **Colombia's** army reoccupied five towns in an enclave turned over to the FARC guerrillas three years ago. The FARC kidnapped a presidential hopeful. George Bush said that he would adhere to the law that limits American aid to fighting drugs rather than guerrillas. Earlier, Donald Rumsfeld, America's defence secretary, had refused to rule out sending American troops.

See article: Colombia contemplates stepped-up war

In **Argentina**, the government of Eduardo Duhalde made slow progress towards persuading provincial governors to accept cuts in revenue transfers from the centre. Groups of unemployed protested against planned budget cuts.

See article: Explaining Argentina's economic collapse

Jose Serra, the candidate of President Fernando Henrique Cardoso's party, launched his campaign for **Brazil's** presidential election in October.

See article: Brazil's presidential election campaign

Robert Madrazo, a wily former state governor, claimed victory in a close-fought election for the presidency of the PRI, **Mexico's** former ruling party and now the main opposition to President Vicente Fox. His opponent, Beatriz Paredes, alleged ballot-rigging.

See article: The leadership battle in Mexico's PRI

Welfare states

George Bush announced details of his next stage of **welfare reform**. His proposals tinker with the successful reforms of 1996: no extra cash for the pot in real terms and a tightening of the requirement that recipients do some work in return for help. But many congressional Democrats may prove resistant, as they did back in 1996.

See article: George Bush revisits welfare reform

Local difficulties

The Bharatiya Janata Party, leader of India's ruling coalition, lost power in **Uttar Pradesh**, the biggest state, denting its credibility.

See article: Budgets, elections and killings in India

A train carrying Hindus from a religious celebration at **Ayodhya**, where Hindus destroyed a mosque in 1992, was set on fire by a Muslim crowd. At least 57 people died.

A taped film of the beheading of **Daniel Pearl**, an American journalist kidnapped in Karachi, was delivered to an American consulate in Pakistan.

See article: Daniel Pearl's murder

A “permanent” ceasefire, negotiated by Norway, came into effect in **Sri Lanka**. It is designed to lead to a peace deal, ending 19 years of civil war between the government and the Tamil Tigers.

See article: Peace prospects in Sri Lanka

Queen Elizabeth arrived in Australia to celebrate her 50 years on the throne, amid calls for the dismissal of the governor-general over his conduct while Anglican archbishop of Brisbane in the 1990s.

AP

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Business this week

Feb 28th 2002
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Hewlett slip?

The enthusiasm of their chief executives for a merger between **Hewlett-Packard** and **Compaq** is surely motivated by business considerations alone. So why should Walter Hewlett, an anti-merger member of HP's board, choose to reveal that the two may be compensated to the tune of $115m if the deal goes through?

Northrop Grumman took advantage of the departure of TRW's chief executive to the top job at Honeywell. After shares in the electronics and engineering firm had sagged the American defence giant offered $5.9 billion for it. TRW's shares rebounded handsomely, since investors expect other bidders to emerge.

AIG joined the list of companies frightened into disclosing more financial information. Shareholders, noting the lessons of Enron's collapse, have shown displeasure towards companies with opaque accounts by selling. The huge financial-services firm will even go to the lengths of holding conference calls to explain its results.

See article: Scrutiny for AIG, the world's biggest insurer

Allied Domecq bought a drink from a British rival for £560m ($798m). The sale of Malibu, a sugary rum and coconut drink, was a requirement by America's regulators to approve **Diageo's** purchase (along with Pernod Ricard) of the drinks interests of Canada's Seagram last year.

Media spat

Shares in **ProSiebenSat.1**, a terrestrial broadcaster controlled by cash-strapped **Kirch**, made big gains after the cancellation of a merger with KirchMedia, Kirch's rights arm. Leo Kirch, the group's founder, took time to offer his view of **Rupert Murdoch**, who holds a put option worth *euro*1.7 billion ($1.5 billion) that he may use as leverage to get his hands on some of Kirch's choicest assets. “Murdoch is a shark,” he opined.

Liberty Media's attempt to dominate European cable-TV suffered a blow at the hands of Germany's competition watchdogs. The American firm was refused permission to buy six regional cable companies with some 10m subscribers from Deutsche Telekom for $4.8m.

Williams Communications, an American telecoms company, teetered on the brink of Chapter 11 bankruptcy protection. Heavy debts of around $5.5 billion incurred in constructing a fibre-optic network that did little more than add to massive overcapacity will also hit Williams, the beleaguered firm's former owner; it is liable for over $2 billion of the debt.

Motoring ahead

Confidence rebounded at **General Motors**. Despite a gloomier outlook at its big rivals, Ford and DaimlerChrysler, GM raised profit forecasts for the year. The car maker has lifted sales with a 0% finance scheme. It also plans to shore up its balance sheet with $10 billion raised mainly through the sale of its Hughes satellite-TV arm for $4.2 billion; and it is issuing convertible bonds worth some $2.5 billion.

Volkswagen may yet be saved from foreign invasion. A new European Commission takeover code is

again under threat from Germany, keen to protect its biggest car maker. Gerhard Schröder, Germany's chancellor, spoke of “resistance”. VW's biggest shareholder, the state of Lower Saxony, with a 20% stake, is able to block any takeover.

A new code of **corporate governance** was proposed in Germany, supposedly to make businesses more shareholder-friendly. But the code will be voluntary.

Swiss miss

Swiss Re said that it expected losses of SFr200m ($118m) for 2001 after the world's second-biggest reinsurer put costs from September 11th at nearly SFr3 billion. However, it will still pay a dividend, as it has every year since 1869. It expects business to pick up; reinsurance rates are rising at the same time as risk coverage is being cut.

See article: Swiss corporate governance questioned

Manfred Zobl resigned as chief executive of **Swiss Life** after ten years in charge because of “differing strategic views”. His strategy has seen shares falling by 65% over the past year and profits for 2001 predicted at around SFr100m ($59m), compared with SFr924m the year before.

A string of appalling results and shareholder pressure finally put paid to the tenure of Rolf Hüppi as chief executive of **Zurich Financial Services**. He stepped down after a string of profit warnings had taken their toll on the company's share price.

Slow recovery

Alan Greenspan, Federal Reserve chairman, said that the economy was pulling out of recession, but warned that recovery may be slow. Revised figures showed that **American GDP** grew by 1.4% at an annual rate in the fourth quarter compared with an initial estimate of 0.2%. In the third quarter it contracted by 1.3%.

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Latin America

Losing its way?

Feb 28th 2002
From The Economist print edition

Latin America is in its worst mess for a decade. The challenge is political as well as economic

A DOZEN or so years ago, Latin America slipped free from the shackles of dictatorships and the cold war, and from the economic stranglehold of protectionism. Amid exuberant optimism, the region embraced democracy, open trade and the free market. Capital poured in from outside, economic growth surged, and poverty began to fall.

Today, the mood could hardly be more different. Nowhere in Latin America is thriving. The region as a whole slipped into recession last year, as did most of the world, but for many Latin Americans this was the second such downturn since 1998. Democracy is holding up, but polls show people to be deeply dissatisfied with its failure to bring jobs, improve living standards or tackle violent crime. In their millions, Latin Americans, including much-needed professionals, are voting with their feet, migrating to the United States or Europe.

In some countries, matters are much worse than that. In Argentina, a new president, Eduardo Duhalde, is grappling—without much success so far—to refound the economy, after the collapse of its fixed exchange rate and the wrecking of its banking system. In Venezuela, the currency is crashing, and the army is stirring: each week brings new calls for the resignation of Hugo Chavez, the populist president. In Colombia, President Andres Pastrana has sent his army in pursuit of the FARC guerrillas, after three years of fruitless peace talks.

In places, the anger has boiled over. In Buenos Aires and Caracas, the middle classes are on the streets, banging pots and pans in protest at the venality and incompetence of their leaders. Peru, newly democratic after the corrupt autocracy of Alberto Fujimori, is also shaken by protest. So is Ecuador.

Many politicians, and some citizens, blame all this on the “neo-liberal” policies of the past decade. There is much excited talk of a swing back to that Latin tradition, populism. Though Argentina's economic collapse has so far had little financial effect on its neighbours, it is argued that it will spread “ideological contagion”, in the form of debt defaults, calls to protect and foster national industries, and a return to state largesse.

Not so simple

In fact, though there is little or no appetite for further liberal reform, a return to full-blooded populism is unlikely. Governments no longer have access to the money for the policies it entails, and the middle class, having tasted some of the benefits of globalisation, has no desire to relinquish them.

Meanwhile, there are signs that Brazil and Mexico, which between them account for over half the region's population and 60% of its GDP, are starting to pull out of recession. In fact, Argentina's problems are in part unique (as, in a very different way, are Colombia's). They stem from the particular policies that Argentina pursued in the 1990s (see article). True, these had familiar flaws: some Latin American countries still retain a vestigial weakness for fiscal deficits and overvalued exchange rates. But the rigidity of Argentina's currency board, once seen as a virtue, made it uniquely hard for the country to adapt when capital flows to emerging economies began to dry up after 1997.

Argentina shares with Venezuela both the memory of past wealth (from agriculture and oil respectively)

and pervasive corruption. That explosive combination makes both countries unusually resistant to sound public finance. But Mr Chavez's “revolution” has landed his country in such trouble that he is unlikely to attract many imitators. And Mr Duhalde has drawn back from his early populist talk. His government has made mistakes, has an air of improvisation and lacks technical expertise. It also faces a daunting agenda: it must win approval for an austere budget, shut down failed banks, help the poor and win the backing of the IMF, if it is to have any chance of floating the peso successfully. But it is starting to do some things right, such as moving towards fiscal reforms.

Neither miracles nor mediocrity

Look at what Latin Americans do, rather than what is said about them, and the region's political trend looks rather different. Populists and leftists have been defeated in recent elections, and now look unlikely to win Brazil's presidency in October. In Colombia, a tough right-winger, Alvaro Uribe, looks set to sweep to victory in an election in May—because ordinary Colombians are fed up with guerrilla war and kidnapping.

But to question the idea that Latin America is about to turn back to populism is not to deny the severity of its problems. Even before the latest recession, economic performance had turned mediocre: in the 1990s, growth averaged only 3.3% a year and income per person rose by only 1.5% a year, while inequality—another old Latin American vice—increased.

In many countries, but in Argentina especially, democratic politicians are seen to have failed. Many of these political leaders were blooded in the populist era, and paid little more than lip-service to reform. But their failure leaves an ugly vacuum. In Venezuela, that gave rise to Mr Chavez. Were Mr Duhalde to fail in Argentina, there are fears that the generals, however reluctantly, would be dragged in to keep order.

The first task for democrats, then, is one of political renewal, of fighting corruption through strong institutions, not would-be messiahs. The second is economic. The obstacles to growth are huge. Compared with workers in other middle-income regions, Latin America's are poorly educated and poorly trained, yet neither can they compete with China in cheap goods. Institutions, from courts to capital markets, function badly, and not enough is spent on science and technology. To make matters worse, the outside world is becoming less helpful: capital is scarcer, and rich countries have not freed their markets for Latin America's farm, textile or steel exports.

The problem is not that Latin America adopted the wrong course a decade ago, but that the road is longer and more complicated than many hoped, and that many of the region's political leaders have been found wanting. There are no miracle cures—such as some believed Argentina's currency board to be, and others see in populism. That is why it is so important not to draw the wrong conclusions from the current turmoil.

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Bribery

The worm that never dies

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Efforts to eliminate bribery seldom succeed, but they should continue even so

IN RECENT years, the West has set its face firmly against bribery. This ancient and universal practice has been condemned as a worm that gnaws at the fruits of economic endeavour. New laws have been introduced and multinationals have been enthusiastically pronouncing “no bribery” policies. Yet, despite these efforts, the worm thrives still. Most half-reliable measures of bribery around the world show it to be growing, not fading away. What can be done to kill it, over and above what governments and companies are already doing?

The first point is that the battle should not be abandoned. There is no need to claim the moral high ground to justify a fight against bribery. Economists increasingly accept that it has a negative impact on growth. In its most recent *World Development Report*, the World Bank declares that “across countries there is evidence that higher levels of corruption are associated with lower growth and lower levels of per capita income.” Inflows of foreign investment seem to be closely correlated with low levels of bribery. Relatively clean countries such as Estonia or Chile attract more investment than do dirtier ones of similar wealth, such as Panama or Venezuela.

For companies, the main conduits of bribery, the practice involves a cost that their managers and shareholders should be happy to shed. In Uganda, it has been estimated that bribes increase a company's costs by about 8%. This eats into profits. Yet investors' concern has long been half-hearted—for two main reasons. One is that, like their companies' managers, many people believe that in some parts of the world a company has to bribe in order to do any business at all. They also believe that lots of the bribes their companies engage in are merely small “facilitation payments”, different in kind from mega-gifts with the power to alter the direction of large government contracts. Facilitation payments, investors assure themselves, are vital to the smooth running of any operation in more than half the world's countries.

The price of virtue

Investors and bosses should learn that in fact neither practice is essential to profitable business. A number of companies (albeit still regrettably few) have a “no bribery” policy which they genuinely attempt to pursue, and yet it does not exclude them from interesting markets. There is, though, a real problem of “first-mover disadvantage”. In many markets, the first company to eschew bribes will put itself at a competitive disadvantage vis-à-vis rivals who continue to pay for favours. But there is a simple solution to this. Investors should press their companies to agree within industry-wide associations to desist from bribes collectively. In most industries, the shortlists for really big contracts contain names from a relatively small circle of firms. They all know each other. And in many cases they know who's paying, and for what. As a group, they can enforce a collective “no bribery” policy far more effectively than if each were to attempt one individually.

Investors should not delude themselves that facilitation payments are essential, either. Despite the efforts of American legislators, and of companies such as BP, Shell and Unilever, to define a strong distinction between these payments and bribes, there is none in practice. Facilitation payments are merely the first move in what Edward Bickham, a vice-president at Anglo American, a company with long experience of working in some of the most corrupt countries on earth, describes as “a chess game that begins to lead to bribery”. Accepting small gifts, invitations to lavish events or the loan of somebody's

luxury car can soon lead to bigger things, in a vicious circle of quid pro quo. Anglo American believes that zero tolerance is the only policy that works. Today's facilitation payment is tomorrow's bribe.

The pesticidal power of market forces

Market forces are likely to prove far more effective than legal forces in the fight against bribery. Legislation has a disappointing track record, both at home and overseas (see article). America believes that its pioneering Foreign Corrupt Practices Act (FCPA) of 1977 has given it a first-mover disadvantage in winning large foreign contracts. So it has been urging other developed economies to impose comparable extra-territorial legislation on their nationals.

But this has proved hard. Many countries remain reluctant to legislate. And there have anyway been few successful cases pursued against bribery abroad. Mark Pieth, a Swiss law professor who is chairman of the OECD's working group on bribery in international business, believes that progress will “involve a reappraisal of investigative techniques, in particular with regard to the collection of evidence from abroad.”

Nobody should hold his breath for that. So it may be up to investors to increase the pressure on companies, not only to introduce “no bribery” policies but also to implement them properly. That means, first and foremost, recognising that bribery is commonplace. Good firms are different from bad in the way they handle it, not in the volume they experience. If they handle it well, of course, that volume will fall.

Handling it well is difficult. But there are a few things that are essential. For a start, companies must give all their employees clear advice on the steps to be followed when they suspect that bribes are being offered or demanded. They need telephone numbers to contact, and not only of people inside the organisation.Carefully designed internal audit procedures can help flush out bribes disguised, for example, as agents' commissions. And training is essential. Although a bribe occurs as part of a brief transaction, the process that leads up to it is often what makes the bribe possible. Training can help employees recognise that process as it unwinds.

Multinationals can also help in the fight against bribery by encouraging the governments of corrupt countries in which they operate to reward their civil servants properly (ie, pay more to fewer of them). That way there will be less “power without pay” floating about desperately and dangerously in search of a living. There may then be a real chance that the worldwide worm of bribery will cease to squirm.

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Steel trade

Just say No

Feb 28th 2002
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Why protecting American steel is such a rotten idea

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GEORGE BUSH faces a stark test of his claim to be a free-trade president. Before March 6th, he must decide whether to put tariffs on foreign steel to help the embattled domestic industry. American law allows him to impose protection for industries that have suffered injury from imports. American trade arbiters have duly found such injury in steel, and the steel lobby is looking for tariffs as big as 40%.

That would be disastrous. It would wreck relations with trading partners round the world, from Kazakhstan to South Korea. The transatlantic trade relationship that was so crucial to the launch of the Doha trade round would be badly damaged. A fight at the World Trade Organisation over the legality of American tariffs would be inevitable. Other disputes would surely escalate, from America's unlawful tax subsidies for exporters to Europe's unwillingness to admit genetically modified foods. At the least, progress on the Doha round would stall. At worst, a full-blown trade war could break out.

If all that is not enough, tariffs on steel would also harm the American economy, at a time when its nascent recovery is particularly fragile. America consumes more steel than it produces; consumers would suffer far more from a tariff than producers would benefit.

At the cost of destroying jobs elsewhere, tariffs would save some jobs in steel—but only temporarily. Tariffs would do nothing to solve the industry's structural problems. American steel is really two industries: a group of low-cost, non-unionised mini-mills and an array of unionised, capital- and labour-intensive integrated steel producers. Mini-mills have been doing well: their share of the market has quintupled over the past 25 years. But the integrated dinosaurs, hobbled by high production costs, are horribly uncompetitive and have remained so despite (or more likely because of) a long history of protection. The only rational long-term solution is to allow most of them to go bankrupt.

Unfortunately, politics dictates otherwise. The steel lobby is enormously powerful. Mr Bush may even owe his job to West Virginia's steel workers. Unhappy at Bill Clinton's unwillingness to help them, these traditional Democratic stalwarts voted Republican in 2000. In any case, Mr Bush initiated the trade-arbitration process that has led to the tariff recommendation, so he can hardly do nothing in response.

Yet, although Mr Bush cannot ignore big steel, he need not lapse into protection. Steel workers, as opposed to steel companies, can be helped in ways that do not interfere with free trade. Pension benefits are a particular problem in the industry and would be at risk if firms closed, but the government's Pension Benefit Guaranty Corporation helps workers with pension plans when their employers go bust, even if the result is less generous than the recklessly extravagant promises the steel makers made. Trade adjustment assistance can help to retrain workers who lose their jobs.

There are equally creative solutions for other steel problems. Tax credits or subsidies could make health insurance affordable for laid-off workers who are not eligible for Medicare. Communities that depend on a single steel mill could get special help. Sticking to free-trade principles may mean losing some steel companies, but it need not mean abandoning their workers. It just requires the political spine to stop traditional—and always unsuccessful—protection and focus help instead on employees, not their employers.

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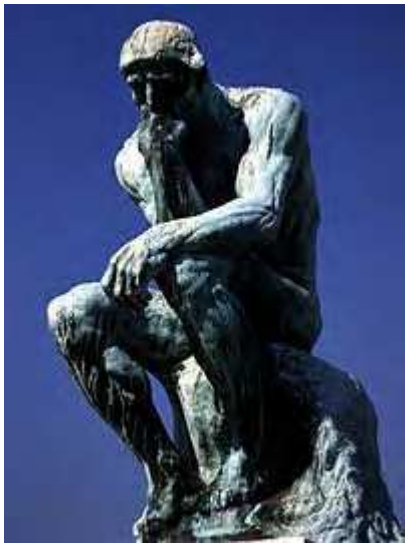
The European Union

Conventional wisdom

Feb 28th 2002
From The Economist print edition

They could use some of it in Brussels, if they are to produce a popular constitution

PowerStock



"WE, THE elites..." Any constitution written for the European Union in the past half-century, had it been honest, would have started with those words. The document that eventually emerges from the convention which got down to work this week in Brussels—and which is compared by some of its less modest members to the gathering in Philadelphia in 1787 that produced the American constitution—should reflect the fact that the elites no longer speak for Europe. The convention provides a wonderful opportunity to relaunch the European venture. It would be a tragedy if the next 12-18 months were spent drawing up a document that simply made the voters yawn—or retch.

Is that a risk? Yes. The convention's 105 delegates—representatives of European governments, parliaments and institutions—have two tasks. One is to propose a set of arrangements to enable the Union to work when it has 25-30 members rather than its present 15. The second is to express the purpose of the Union, so that the citizens whom it is meant to serve will understand its relevance to their lives and, with luck, feel some enthusiasm for its activities. It is not clear that the delegates see the need for this second task. And even those who do may be tempted to overlook it, both because their own inclinations lead them towards further European integration and because the neatest conceptual way to organise an expanded club is to impose a strong central authority on it.

That the EU needs a new purpose, or at least a new definition of purpose, should not be in doubt. The euro has, so far, been a success. But the single currency has yet to be put to the test of time and, meanwhile, dissatisfaction with aspects of the Union grows apace. Denmark, whose voters once rejected the Maastricht treaty, remains dubious about further integration. Ireland, often presented as the finest example of the merits of membership of the EU, shocked Euro-enthusiasts last June by voting against the Nice treaty, which was designed to pave the way for enlargement. The prospect of a dozen or so mostly poor new members causes unease much farther afield, notably in Germany and Austria. Britain remains strikingly cool about the EU, and even Italy, long uncritically Europhile, now has a government that judges it safe to place nation-state before co-operative enterprise. Many of the Union's citizens seem to feel that the euro provides them with quite enough to digest for the moment.

Philadelphia? Yes, cream cheese

If that makes them lukewarm at best about enlargement, the applicant countries also have their doubts, albeit for different reasons. They are eager to get the economic, political and security benefits of membership, but for them the EU "is an organisation of and between states," in the words of President Vaira Vike-Freiberga of Latvia. "We have had to fight too hard for our nation-state to want to dispense with it now." Many of the other would-be members share her views (see article).

For the visionaries, though, the single-currency project is only half complete: the euro was always meant to be matched by political integration, as Gerhard Schröder—Tony Blair's Euro-buddy of the week (see article)—freely admits. And those who think like Mr Schröder, or are even more integrationist than he is, are in a large majority in the convention.

One easy way to make the convention more representative would be to bring in the 39 delegates from

the applicant countries as full members, not observers. But top-down, rather than bottom-up, is still the way the EU thinks. It, or rather Mr Schröder and Mr Blair, have at last recognised that the secret proceedings of the Council of Ministers—which partly acts as a legislature—do nothing to create confidence in the EU's institutions. But they do not yet seem to understand that the Union suffers from a more basic democratic problem in that most people simply do not know what it is for or where it is going.

A constitution is the ideal way to repair that problem. *The Economist* would like to see it scrap “ever closer union” as the EU's declared *raison d'être* and adopt instead the more prosaic “principles of liberty, democracy and the rule of law”. And we would like it to make clear exactly who is to do what in the Union, and at what level of government—a matter that now seems to be slipping down the agenda. But the most important consideration is that this constitution should have the support of the people of Europe, east and west, who will live under it. Better surely to recognise that at the outset than to draft a document that will be rejected by the voters when they are asked to approve it—if they are lucky enough to get the chance.

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About sponsorship

Angola

After Savimbi

Feb 28th 2002
From The Economist print edition

This is Angola's best chance for peace for a decade

Corbis

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ANYONE who has visited Angola can see why the country desperately needs peace. It has been at war since before most Angolans' parents were born. Its fertile soil bristles with mines, its people are permanently hungry and afraid. A quarter of Angolans have fled their homes to avoid being butchered or conscripted. A whole generation has grown up in the stinking refugee camps that surround its large cities.

Which is why it is so important that the Angolan government should not waste the opportunity created last week by the death of Jonas Savimbi, the leader of the UNITA rebels. The late, unlamented Mr Savimbi was not the sole cause of Angola's civil war, but he was the main reason why it has lasted so long. With his energy, his tactical brilliance and his utter ruthlessness, he was the soul of the guerrilla army he led (see article). Without him, UNITA is certainly weaker, and probably more willing to compromise.

Making peace will not be easy; past attempts have always failed. Fortunately, most of UNITA's troops are sick of fighting. If they are to lay down their arms, however, the Angolan government needs to call an immediate ceasefire and offer an amnesty to all who surrender. All this will need to be monitored by outsiders: since the government's soldiers habitually kill their prisoners, UNITA's men will need some reassurance. A truce would allow the president, Jose Eduardo dos Santos, to set a date for elections. Before then, as a sign of good faith, he could offer some cabinet posts to members of Mr Savimbi's tribe, the Ovimbundu, Angola's largest and most aggrieved.

The government says it is willing to work for “national reconciliation”, but several senior ministers and generals have reasons not to push too hard for peace. The war has long provided Mr dos Santos's regime with an excuse to harass peaceful dissidents, delay democratic reforms and abandon its destitute hordes to the care of foreign aid agencies. Moreover, the secrecy that necessarily enshrouds military matters has provided a cover for corruption: on one estimate, a third of Angola's state revenues were not properly accounted for last year.

Enter America, please

For this reason, it is essential that the outside world puts pressure on Mr dos Santos. Foreigners have several levers. Angola is heavily in debt. Its oil, which accounts for almost 90% of the government's income, is pumped by western companies and sold mainly in the West. America would have by far the most influence, if it chose to wield it. Not only is it Angola's biggest trading partner; it is also the source of most of its sophisticated military technology. Without surveillance equipment from America and its ally, Israel, the Angolan army could probably not have tracked down and killed Mr Savimbi.

During the cold war, America supported UNITA, which was fighting a Marxist government with Soviet and Cuban allies. After the Soviet Union collapsed, the Angolan government renounced Marxism. The Americans ditched Mr Savimbi, and started coddling Mr dos Santos, chiefly because huge deposits of oil had been found off the Angolan coast. In the past ten years or so, America has put little or no pressure on the dos Santos regime to become less crooked or despotic.

George Bush met Mr dos Santos this week and urged him to end the war. But he stopped short of demanding that he should declare a unilateral ceasefire, and Mr dos Santos said that the onus was on UNITA to make the first concessions. That is not good enough. Americans are, understandably, more concerned with their oil supply than with Angola's domestic politics. But Mr Bush can surely twist arms without jeopardising that supply.

America owes Angola a debt of honour. Albeit with the admirable aim of curbing communism, America helped to create Mr Savimbi, and so bears some moral responsibility for clearing up after him. Mr Bush should spare a thought for the 3½m ragged refugees who would love to return home. They can do so only if the war ends; and he can help to end the war.

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About sponsorship

Britain's government

The disgraceful Stephen Byers

Feb 28th 2002
From The Economist print edition

Britain's transport secretary has smashed up more than his own department

THE British civil service, R.A. Butler once said, is a bit like a Rolls-Royce: “You know it's the best machine in the world but you're not quite sure what to do with it.” All the same, some ministers are more careful drivers than others. Over the past week and a bit, British voters have gazed with wonder at the antics of Stephen Byers, Tony Blair's transport secretary. Here is a politician who steers his own department into a horrible smash, strews casualties everywhere, and then sits on insouciantly in the wreckage, gripping the (detached) steering wheel and refusing to resign. Mr Blair should pluck him out, and boot him out. Instead, the prime minister has told him to carry on the good work. What, you may ask, is going on?

New readers are advised to take a deep breath and hold their noses. This is a tangled affair as well as a rotten one. Mr Byers, his senior officials and officials at Downing Street have at different times given conflicting versions of the truth. But even the facts that are not in dispute should have been more than enough to bring Mr Byers's tricksy career to an end. His continuation in office, even if it is only until the next cabinet reshuffle, is a stain on Britain's politics.

In brief, the undisputed facts are these. When Mr Byers was sent to run the transport department last June, he took along a political spin doctor, Jo Moore. She soon became notorious for her e-mail saying that events in America made September 11th a good day to “bury” bad news at home. She also picked a fight with the transport department's information officers, by telling one of them to leak private information that would damage the case that London's mayor was then making against Mr Byers's plan to part-privatise London's Tube. When the career civil servant in charge of the information department objected that this was not the job of civil servants, he was pushed out and replaced by a new head of information, Martin Sixsmith, a former BBC journalist and Labour sympathiser.

Before long, Mr Sixsmith too clashed with Ms Moore. He sent an e-mail to Mr Byers advising him against a proposal to announce some bad departmental news on the day of Princess Margaret's funeral. A version of this e-mail, leaked to the press, created the impression that Ms Moore was up to her old tricks. Mr Byers thereupon announced that both Ms Moore and Mr Sixsmith had resigned. So, for a week, it seemed. But in fact Mr Sixsmith had not resigned: at the time Mr Byers said he had, Mr Sixsmith was still negotiating his fate with Sir Richard Mottram, the department's permanent secretary. Part of this negotiation turned on whether he would be offered another job in the civil service. Mr Byers insisted several times on television that this was a “personnel matter” in which he himself was not involved. In fact, as Mr Byers later admitted to the House of Commons, this was a lie. He had told Sir Richard that Mr Sixsmith should not get another job.

None of these facts is in dispute (though many other disturbing “facts”, see article, still are). They demonstrate, at a minimum, that Mr Byers is a managerial incompetent and a liar. He failed to police relations between his spin doctor and his information department. He accepted the resignation of Ms Moore even though he says she did no wrong. He announced the resignation of Mr Sixsmith when Mr Sixsmith had not resigned. Then he fibbed on television about his role in blocking Mr Sixsmith's search for an alternative job. How does Mr Blair justify keeping this man in his cabinet?

Why it matters

The “line to take”, dutifully trotted out in the Commons by Labour's obedient backbenchers, is that the whole story is a tempest in a teapot. Why should a minister resign just because of a falling-out among some media officials? So what if he told lies brazenly to the public, provided that he told the truth contritely to Parliament? Has not the whole fuss been blown out of proportion by Labour's political enemies?

This argument is risible. As every pager-bearing backbencher knows, media relations are not an obscure function carried out on some distant margin of a Labour minister's empire. It is the main thing they do. Mr Blair's government has quite deliberately put propaganda at the centre of its politics. It has doubled the number of political appointees serving alongside the civil service, many of them involved primarily in “spin”. This has aroused understandable fears among civil servants that their tradition of political neutrality is in peril (see article). And, at every twist of the Moore-Sixsmith saga, Mr Byers has taken a course of action guaranteed to confirm these fears. Any civil servant who has dared to challenge the political manipulation of news has been elbowed aside or told that he or she has “resigned”. It is past time for Mr Blair to resign Mr Byers. The longer he stays, the harder it will be to repair a mangled and demoralised civil service.

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Letters

Feb 28th 2002
From The Economist print edition

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Gospel science

SIR – Jeffrey Harvey's letter (February 16th), in response to your article on Bjorn Lomborg, is among the most remarkable and disturbing I have ever read. He attempts to demonstrate the "absurdity" of your claim that Tom Lovejoy's *Scientific American* article was "weak on substance", not by reference to the substance of Mr Lovejoy's article but by recounting his rank and position. He then one-ups himself by quoting approvingly an article comparing *Nature* to the Bible and *Scientific American* to the Koran, and ascribing to them the power of gospel truth.

While notions of unquestioned authority and infallible oracles have long been shunned outside fundamentalist religious circles, apparently they have found a comfortable home among some scientists. You must have been shaking your head in disbelief at such an egregious example of the kind of person against whom science must be defended. Men such as Mr Harvey do not deserve to call themselves scientists.

Charles Korsmo
Washington, DC

SIR – During a 40-year career of research, I was privileged to work with many gifted and distinguished scientists. Most were passionate about their fields and many were endowed with a generous dose of "academic ego" but all were prepared to accept critique of their works. They would participate in dialogue about their assumptions, the applicability and levels of error in data, and methods of analysis and rigour of reasoning, addressing how these factors impinged upon the validity of their conclusions and the level of uncertainty in their findings.

It seems that the emerging paradigm of scientific discourse is different: if you dislike someone's conclusions, you malign his integrity or throw a pie at him.

Frank Albini
Bozeman, Montana

British Columbia's budget

SIR – Your claim that British Columbia's previous New Democratic Party (NDP) administration left behind a C$1.5 billion ($1.0 billion) surplus is misleading ("Campbell's war", February 2nd). When we came to office in June 2001, we appointed an independent fiscal-review panel. It examined the NDP's budget assumptions and determined that the province was actually facing a C$24m deficit for the current fiscal year.

The previous government's onerous tax and regulatory policies reduced British Columbia to an economic under-achiever through most of the 1990s. Also, they ramped up government spending in the lead-up to an election. As the review panel explained, this set the province on course for structural deficits of C$3billion-4 billion in the years ahead. We are moving quickly and decisively to reverse this by restoring British Columbia's competitive position and making the tough but necessary decisions needed to balance our budget by 2004-05.

In order to restore competitiveness, we reduced the top marginal income-tax rate from the highest in

North America to the second-lowest in Canada. We eliminated provincial-sales tax on production machinery and equipment. We reduced corporate-income tax to the same level as Alberta and Ontario. We are eliminating corporate-capital tax—a tax that caused Asian investment to dry up. We are acting decisively to make British Columbia the best place in North America to work, live and invest.

Gary Collins
Minister of finance
Government of British Columbia
Victoria

East meets west

SIR – Your leaders on Japan and the EU ("The sadness of Japan" and "Until next time", February 16th) offer an interesting juxtaposition of economic policymaking—and even democracy—in the two places. The former reminds me of a favourite quip: "The Japanese never miss an opportunity to miss an opportunity." Despite having a single set of institutions, a centralised decision-making process, and an essentially homogeneous ruling class, the Japanese government is unable to act in response to the manifest challenges which confront it. The EU, by stark contrast, is a Tower of Babel of different institutions, interests and, indeed, languages, yet it manages to inch toward "ever closer union"—albeit slowly, awkwardly and, as you say, sometimes wrong-headedly.

Common to both places are important shortcomings in democratic politics. Japan's problem is a lack of opposition: not only in the party-political sense, but through a paucity of independent think-tanks, NGOs, academics and journalists to challenge the conventional wisdom. Missing in the EU is sufficient openness and accountability in government to enable citizens to understand and participate fully in the project of integration. Effective opposition might spur Japan's government to act where now it will not; greater transparency might check the penchant of EU institutions for acting where they should not.

Matthew Goodman
London

Paying for parties

SIR – A reform of campaign finance proposed here in Canada is to ask taxpayers to indicate their personal preference on their tax return, which in aggregate would determine the distribution of a government campaign fund (Bagehot, February 23rd). This solution, championed by the Green Party of Canada, does not entrench existing parties as creatures of the government, nor does it foreclose the possibility of new parties receiving funding. Also, taxpayers are not compelled to support a party they dislike. Transparency is a nice, classical-liberal solution, but it is not the only alternative.

Paul Connor
Toronto

Evil-minded

SIR – You applaud George Bush's "axis of evil" phrase as standing alongside Ronald Reagan's description of the Soviet Union as an "evil empire" ("George Bush and the axis of evil", February 2nd).

Such a comment ignores the damage that Mr Reagan's patent exaggeration did in the early 1980s. In believing its own propaganda, America fell into the error of seeing the Middle East through the distorting prism of their cold-war confrontation. This got things back to front and bade fair to bring about precisely the outcome that America was trying to avoid. I remember a Foreign Office minister asking his Syrian counterpart at this time who was the Soviet Union's best friend in the area. Without hesitation the Syrian replied: "Ronald Reagan". If Mr Bush wishes (as he should) to maintain the "alliance against terrorism", he would do well to ponder this cautionary tale and avoid alienating those whom he needs to cultivate.

Ivor Lucas
British ambassador to Syria 1982-84
London

SIR – You have quite missed the thrust of Mr Bush's "axis of evil" declaration. Its aim is world peace. How better to end hostilities between Iran and Iraq than by providing them with a common enemy?

Richard Wexelblat
Merion Station, Pennsylvania

SIR – Should not your cover have read: “George Bush and his praxis of evil”?

M. Fox
Montreal

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Argentina's collapse

A decline without parallel

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From The Economist print edition

EPA

In the 1990s, Argentina was Latin America's star. How did it become a basket case?

EACH Sunday afternoon for the past few weeks, several thousand people have gathered in a public park in a solidly middle-class district of comfortable apartment blocks and quiet cafés in Buenos Aires. Though it is summer, and some of the crowd are dressed in shorts and T-shirts, their anger is palpable. They listen as speakers from the newly-formed neighbourhood committees report on plans for protests outside banks and against the government. They roar their disapproval of politicians. “Kick them all out, not a single one should stay,” they chant.

This spontaneous movement helped to bring down two presidents in December. The vacuum was filled when Congress last month chose Eduardo Duhalde of the Peronists, the largest political party, as the interim president. Yet Mr Duhalde's government may not last until the next scheduled presidential election, in September 2003. Such is the awe-inspiring severity of the economic, financial, political and social collapse that has befallen Latin America's hitherto richest country and its third-largest economy.

The past few weeks have seen Argentina default on its $155 billion public debt, the largest such default by any country in history. After a decade in which the peso was fixed by law at parity with the dollar, Mr Duhalde had little choice but to devalue and then float the currency. Already, the peso is trading at under two to the dollar; it may well weaken further. Because most savings, loans and contracts were in dollars, the devaluation has added to the financial chaos. Since December 1st, savings accounts have been frozen. Dollar savings have been turned into devalued pesos. Depositors also face restrictions on how much they can withdraw from current accounts. In January, the banks were closed for all but half a dozen days.

The economy has ground almost to a halt, as the chain of payments between consumers, businesses and suppliers has broken down. Cash is at a premium. All foreign-exchange transactions require the approval of the Central Bank, which has been slow to authorise them. So imports have all but dried up. In some ways, that is merely inconvenient: Chilean salmon, for example, is no longer on the menu at even the best restaurants in Buenos Aires. In others, it may be tragic: hospitals have run short of imported medicines.

Even if Mr Duhalde succeeds in putting together a coherent recovery programme, the cost of the collapse is huge. The government reckons that GDP will contract by 4.9% this year; independent economists think it could shrink by up to twice as much. That comes on top of a recession that has now lasted for nearly four years. At the current exchange rate, income per person in dollar terms has shrunk from around $7,000 to just $3,500, or less than Brazil's. Unemployment has risen to perhaps 25%; in the cities, 44% of the population are now officially poor, with an income of less than 120 pesos per month. And there is a deeper cost. By seizing its citizens' savings, the government has broken a basic contract, and violated

the rule of law. Trust between government and citizens—the essential glue of a prosperous democracy—has been destroyed.

For now, politicians and (mainly foreign-owned) banks are the scapegoats. Several politicians have been beaten up and abused on the street. Dozens of bank branches have been attacked; many now operate with their windows covered by wooden or steel plates. “We're somewhat less popular than serial killers,” says Michael Smith, who manages HSBC's Argentine subsidiary. A further sign of the political damage is that it is unclear whether Argentines will continue to vote for the Peronists and Radicals, the two parties that have dominated democratic politics for the past half century. Even before the economy collapsed, a record 40% of voters in a congressional election last October cast blank or spoiled votes.

Argentina's fate is all the more surprising because, until recently, it was widely held up as a model of successful free-market reform. What went wrong? And who is to blame? The answers are vital not just to Argentina's recovery, but to a wider debate about future policy in Latin America and other parts of the developing world.

From winner to leper

Even before the latest disaster, Argentina's story is that of a decline unparalleled in modern times. Blessed with some of the world's most fertile land on the endless *pampas*, Argentina in the 19th century attracted a flood of British capital and European immigrants. By 1913, having grown at an annual average rate of 5% for the previous three decades, it was one of the world's ten richest countries, ahead of France and Germany.

It has been downhill ever since. Exporting beef and grain to Britain ceased to be a passport to prosperity. But Argentina's leaders, starting with Juan Domingo Peron, a populist army colonel who ruled from 1946 to 1955, aggravated their country's problems by retreating into protectionism and financing generous benefits to workers by printing money. Four decades of political and economic instability culminated in the restoration of democracy in 1983. But the economy still languished: between 1976 and 1989, income per person shrank by more than 1% per year. Two bouts of hyperinflation, and two banking collapses, destroyed confidence in both the peso and economic policy. Argentines preferred to use dollars, and the wealthy shipped their capital abroad.

In 1991, Carlos Menem, a pragmatic Peronist, and Domingo Cavallo, his economy minister, set out to reverse this decline through free-market reforms such as open trade. Their cornerstone was a currency board, under which the peso was fixed by law at par to the dollar, and the money supply restricted to the level of hard-currency reserves. Mr Cavallo called this “convertibility”, deliberately harking back to Argentina's golden age: for much of the period before 1935, the country had operated a currency board, in which a body known as the *Caja de Conversion* was charged with maintaining the peso's value in gold.*

Mr Cavallo's scheme seemed to work. After a lag, inflation was killed. With all risk of devaluation apparently removed, capital poured in from abroad. Mr Menem privatised almost everything the state owned, except for a couple of banks. Between 1991 and 1997, Argentina's economy grew at an annual average rate of 6.1%, the highest in the region (see chart 1). Productivity increased as investment modernised farms, factories and ports.

But the currency board was a demanding regime. Having renounced both exchange-rate policy and monetary policy (interest rates were, in effect, those set by the United States' Federal Reserve, plus whatever risk-margin lenders assigned to Argentina), the government was left with few tools to respond to outside events. The first foretaste of difficulties came in 1995, after Mexico had been forced to devalue its peso. Nervous investors yanked their money from Argentina: the economy shrank by 4%, and a dozen banks collapsed. But the government responded effectively: it tightened bank regulation and capital requirements, and encouraged foreign banks to take over weaker local ones. By the next year, the economy was growing strongly again.

This kind of forced adjustment, argued proponents of the board,

was the beauty of the scheme: it would compel politicians to stay honest. In fact, not only did it fail to do that, but it placed the political system under intense strain.

Internal rigidity, external shocks

So how did it all end so badly? For some economists, the answer starts with the currency board itself. Pedro Lacoste, an Argentine economic consultant, argues that the assumption behind the scheme was that “globalisation was unstoppable”. But then came four external shocks. Prices for Argentina's commodities stopped rising; the cost of capital for emerging economies began to go up; the dollar appreciated against other currencies; and Brazil, Argentina's main trading partner, devalued. The rigidity of the currency board made it difficult to respond to these shocks. In mid-1998, Argentine officials confidently told visitors that the economy would grow at 6% per year indefinitely—just as it was slipping into a grinding recession from which it has yet to emerge. Three years later, with no growth and no prospect of growth, investors finally realised that Argentina's debt might be unpayable.

Argentina found it hard to shake off recession because it was not competitive enough. Exports grew (from $12 billion in 1991 to $27 billion last year), and would have grown more without rich-country farm subsidies and protectionism. But many industries could not compete abroad, especially after Brazil's devaluation. Only some of these were inefficient and deserved to go under.

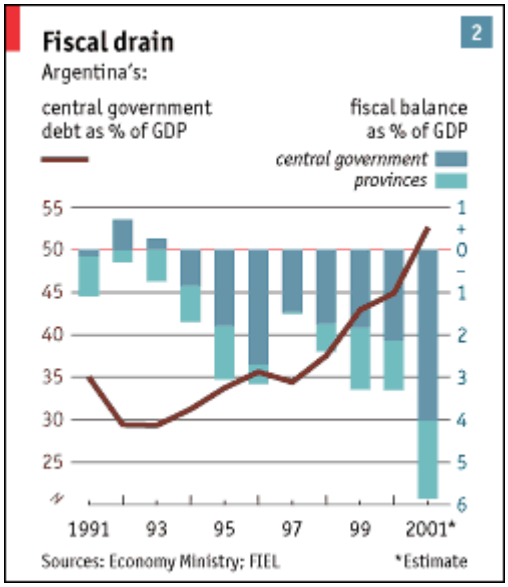
Unable to devalue, Argentina could only become more competitive if prices fell. Deeper reforms might have cut costs. As it was, deflation came from recession, falling wages and rising unemployment. But Argentina remained an expensive place to do business. Mr Menem's privatisations had involved sweetheart deals. Telecoms, electricity, water and some transport services became private rather than public monopolies; their tariffs, on long-term contracts, went up in line with American inflation, even though prices in Argentina were falling. And interest rates remained high. Banks lent dollars at 25%, even though the risk was, in theory, low.

Too much spending, too little taxing

A second school of thought holds that the problem was not the currency board itself, but its undermining by loose fiscal policy. Having won a second term, Mr Menem dispensed with Mr Cavallo in 1996. But investors were happy to go on lending to the government. Instead of printing money, as in the bad old days, it printed bonds to finance its fiscal deficit. But far from pressing forward with reforms, especially of labour laws, social provision, infrastructure and trade, Mr Menem concentrated on trying to buy political support for an unconstitutional third term. Argentina's public debt rose steadily (see chart 2).

The share of public spending in GDP increased from 27% in 1995 to 30% in 2000. Apart from rising debt payments, two things accounted for most of the increase. First, economic growth had not prevented a rise in unemployment, to 12% in 1994. Some provinces in the poorer interior of the country were especially hard hit. They had depended on state enterprises, such as the oil company or the railways, which shed labour when privatised, or on inefficient industries, such as sugar, which could not compete when trade was opened. To quell social unrest, provincial governors padded their payrolls. Second, the government had embarked on an ambitious pension reform from a state pay-as-you-go system to individual private accounts. For the government, the transition costs of this reform reached 3% of GDP in 2000, as

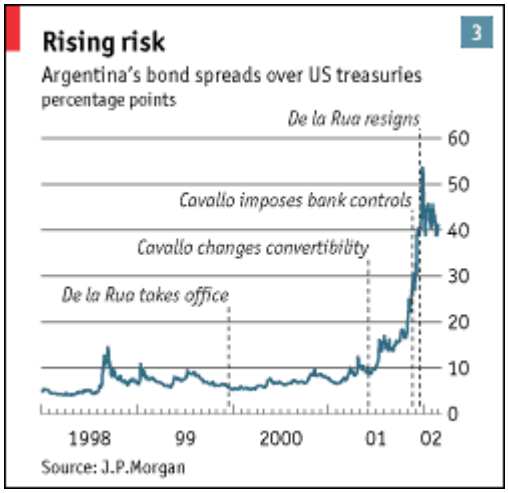
it still had to pay pensioners but no longer received contributions.



Even so, Mr Menem failed to tackle Argentina's fiscal weaknesses. Much spending was inefficient, and involved corruption. The country's tax system is inefficient, and tax evasion is high. Whereas Brazil collects more than 30% of GDP in taxes, Argentina collects just 21% of GDP. And under a system dating from 1853, while the central government collects the taxes, the provinces were (until last year) guaranteed an automatic share of the revenues. That gave them no incentive to spend more efficiently. Mr Menem's failure to balance the books while times were good dealt a difficult hand to his successor, Fernando de la Rua, who was faced with cutting government spending in the midst of a recession. Even so, his government was disastrously ineffective.

The fourth factor in Argentina's downfall was political mismanagement. Mr de la Rua's Alliance government was weak and indecisive. The president lacked a majority in Congress, and was further weakened when his vice-president resigned. In March 2001, Mr de la Rua switched Ricardo Lopez Murphy, his defence minister and a respected orthodox economist, to the economy ministry, with a brief to balance the budget. When Mr Lopez promptly announced sweeping cuts in public spending, Mr de la Rua failed to back him. With Mr Lopez went the last serious chance of saving the currency board.

But the man who turned failure into disaster was, ironically, the man responsible for the Argentine “miracle” of the 1990s: Mr Cavallo, drafted in by Mr de la Rua to replace Mr Lopez. Mr Cavallo first tried “heterodox” measures to try to get growth. He fiddled with tariffs and, fatally, with the currency board itself, so that the peso was pegged for exporters half to the dollar, half to the euro. This was, in itself, a good idea, but the timing was disastrous. By raising the idea of devaluation, it spooked foreign investors. They demanded a higher risk premium for holding Argentine bonds, driving up interest rates and deepening the recession (see chart 3).



But Mr Cavallo's reckless stubbornness did not end there. One of the main achievements of the Menem government had been to mould a strong banking system and an independent central bank. Mr Cavallo proceeded to destroy them both. Not only did he oust Pedro Pou, the Central Bank's governor, and ease banks' reserve requirements, but he raided the financial system to pay for the government. When foreigners jibbed at Argentine bonds, rather than declare a debt default and/or devalue, Mr Cavallo sought money elsewhere. He strong-armed local pension funds into buying government paper and local banks into swapping their holdings of government bonds in return for low-interest loans. And he browbeat the IMF into lending Argentina $8 billion, on top of the $14 billion provided in January 2001.

These actions triggered a bank run. Between July and November, Argentines withdrew some $15 billion from the banks. Three local banks (Banco de Galicia, and two state banks, Nacion and Provincia de Buenos Aires) were particularly affected. To save them, Mr Cavallo made his last, desperate, throw. On December 1st, he imposed a ceiling of $1,000 a month on bank withdrawals. That was a deadly blow to the informal service economy, which functions on cash. Three weeks later, a coalition of pot-banging savers, and looters from the underclass (not impeded, and perhaps unleashed, by the Peronist machine from the Buenos Aires rustbelt), took to the streets. First Mr Cavallo and then Mr de la Rua resigned.

Charles Calomiris, an economist at New York's Columbia University, points out that Argentina's collapse is different from previous emerging-market financial crises. “In other crises, the weakness of the banking system created the expectation of future fiscal problems, because of fears the government would have to bail out failed banks. This was the opposite: fiscal weakness led to banking weakness, as the government ended up using the reserves of the whole banking system.”

Blame everybody

Some politicians, including some supporters of Mr Duhalde, blame the IMF for imposing “neo-liberal” policies of openness and privatisation on Argentina, which they say have failed. But the currency board was Mr Cavallo's invention; the IMF was suspicious of it. And “neo-liberal” policies have not caused this chaos elsewhere. A weightier criticism is that the IMF was too tolerant for too long of Argentina's combination of fixed exchange rates and fiscal laxity. But so were the Wall Street investment banks. And “convertibility” remained popular in Argentina to the end. Some Argentines argue that it was wrong of the IMF to suspend its loan programme in December. Argentina is “the guinea pig for the new religion” of floating exchange rates and obliging the private-sector to bear more of the costs of bail-outs, argues Juan Jose Llach, a former minister.

The weight given to each of these factors is a matter of heated debate, in Argentina and elsewhere. It is fair to say that they all interacted. The strength of the currency board and the banking system allowed Argentina to stay upright longer than seemed possible, but also meant that the collapse has been disproportionately greater.

Reuters

Can the country recover? Some economists argue that now, more than ever, Argentines will trust no currency except the dollar. Once controls on bank deposits are lifted, they expect the peso to crash and Argentines to adopt the dollar de facto. That could spell the end of Mr Duhalde's government. Other economists disagree. Javier Gonzalez Fraga, a former Central Bank president who was critical of the currency board, says that after the reforms, investment and deflation of the 1990s, Argentine companies are “slim and strong”. If and when the exchange rate is stable, he expects Argentines to repatriate some of the $100 billion or so that they hold abroad, and exports and investment to take off.

Restoring public trust in government will take far longer. It means curing Argentina's long-standing fiscal weakness, as well as repairing the banks. Above all, it means a greater sense of realism, among politicians and people. “Argentina continues to act as if it were the country of 1913,” says Rosendo Fraga, a political analyst. “We should look at Chile or Uruguay, and become a simpler, more austere country. We can't be Mexico or Brazil. That's the hardest thing for Argentina to accept.”

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* See “Straining at the Anchor: the Argentine Currency Board and the Search for Macroeconomic Stability, 1880-1935”, by Gerardo della Paolera and Alan M. Taylor, University of Chicago Press, 2001. (Amazon.co.uk)

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Welfare reform

Will tinkering bring the building down?

Feb 28th 2002 | WASHINGTON, DC
From The Economist print edition

Corbis

The coming debate over welfare reform could be more fractious than expected

Get article background

GEORGE BUSH is looking more like Bismarck every day—all blood, iron and the welfare state. After months displaying the first two qualities, the president this week turned to the third, outlining his proposed next stage in the so far stunningly successful story of welfare reform. His proposals reveal a lot about Mr Bush the social reformer. They may also presage an unexpected bust-up in Congress.

The 1996 reform of welfare—"the most sweeping social change in more than half a century", according to the health secretary, Tommy Thompson—must be reauthorised this year. Since it has succeeded in halving welfare rolls in five years, the constituency for radical change seems modest. But four areas are contentious:

• **Money.** The original reform ended welfare as an entitlement, guaranteeing help for anyone who qualified, and fixed the total number of dollars available. Since the welfare rolls have fallen, some argue that the total should be cut now. Others, notably the state governors, say the economic slowdown will increase their welfare burden, and want the total increased.

Mr Bush proposes to split the difference, keeping the total stable in cash terms, at around $17 billion a year, which means a small reduction in real terms. At the same time, he wants to reinstate a $2 billion "contingency fund", which lapsed last year, to help hard-hit states. He also proposes to loosen the conditions for tapping the fund, so that states do not virtually have to declare bankruptcy before qualifying for extra money.

• **Rules.** The original reform worked partly by giving states flexibility to tailor local programmes and partly by requiring all welfare recipients to do some work as a condition of getting help. As a result, two-thirds of those who moved off welfare have been able to get and keep jobs. Mr Bush wants to do more.

The current law requires that half of welfare recipients work between 20 and 30 hours a week, and allows vocational training to count as work. Mr Bush wants to toughen these requirements, demanding that 70% of recipients work 40 hours a week, and that at least 24 of these hours be "real" work (vocational training or job-seeking would not count).

That might sound sensible, since the evidence is clear that the discipline of work, rather than, say, more education, does most to help recipients keep full-time jobs. But the problem, according to Wendell

Primus of the Centre on Budget and Policy Priorities, a think-tank, is that Mr Bush's tougher rules would limit flexibility, which has been an important part of reform. By raising the work requirements, and by narrowing the definition of what counts as work, Mr Bush—an avowed supporter of states' rights—would nudge states closer to a “one-size-fits-all” welfare policy, and could force them to cut back on job-search and vocational programmes.

• **Boosting income.** Welfare reform has been more successful at increasing work than increasing income. The poorest 40% of households have increased their earnings by about $3,000 since welfare reform. But because they have lost benefits, their income has risen by only about $1,800. Most of that is then swallowed by the cost of child care, since nearly all poor households are headed by single mothers. Mr Bush would help a little by making it easier to get benefits such as food stamps (the rules are so strict that many people in work do not bother to apply). He proposes nothing, however, to help with child care, the main drain on poor workers' income.

• **Marriage.** Perhaps the most controversial of Mr Bush's proposals is one that would earmark $300m a year for programmes to boost marriage rates among the poor. A few states provide financial incentives to marry, or require marriage-guidance classes as part of welfare. The president now proposes to expand such schemes.

This will be hotly debated. Granted, welfare reform has much to do with marriage: the original bill made boosting the institution an explicit goal, while marriage rates among the poor have risen since 1996. But many say the state has no business interfering in people's private decisions. Others argue that directly pro-marriage policies do not work anyway (they attribute the rise in marriage rates to the indirect effect of welfare reform overall). And still others say Mr Bush has failed to address the far more important problem of marriage penalties in the tax code. This works in such a way that if a single working mother marries a man on low wages, she can lose thousands of dollars in benefits—and Mr Bush would not change that.

In short, he is proposing to tinker with welfare reform. Some proposals would expand features that have worked well. Others would limit states' flexibility. That will be the starting point of six months of argument in Congress which, given the consensus that reform has succeeded, should produce a new bill by November.

The worry, though, is that debate over details could end up threatening the whole reauthorisation effort. A significant minority of Democrats do not share the consensus view that welfare reform has been a good thing. One proposal, sponsored by Patsy Mink, a Hawaiian congresswoman, would virtually gut welfare reform by loosening work requirements dramatically. She has the support of 70 members, one third of all Democrats in the House of Representatives. It is worth remembering that many Democrats voted for welfare reform in 1996 reluctantly, and only because Bill Clinton fought hard for it. This time, there may be a more partisan fight to keep Mr Bush's modest reforms to reform.

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Texas politics

Barbecue and a business suit

Feb 28th 2002 | AUSTIN
From The Economist print edition

Any other good ideas for Democrats in Texas?

AP

Tony Sanchez, surprise candidate

Get article background

COME November, Texas will hold its first general election since 1996 in which George Bush does not appear somewhere on the ballot. His presence on it, first for governor and then for president, coincided with a growing Republican dominance in the state. The Democrats are now waiting anxiously to discover whether his absence will alter that pattern. They used to own Texas, more or less, with the help of the "yellow dog" Democrats of the agricultural east of the state. But the expansion of the suburbs changed all that.

The Democrats' hopes of a comeback start with the governor's office. This is now occupied by Rick Perry, who was promoted from lieutenant-governor when Mr Bush became president, but did not inherit Mr Bush's popularity. The Democrat around whom the party's leaders are rallying is Tony Sanchez, an oilman and banker from Laredo, on the Mexican border. They hope that his Latino name and business background—along with a $600m fortune—will attract non-white voters without alienating white conservatives.

This cunning plan is the brainchild of John Sharp, who lost to Mr Perry in the lieutenant-governor's race in 1998. He would probably have won if more Latinos, who tend to favour the Democrats, had voted. He hopes to ensure that, this time, they will. A high Latino turnout would also help the Democrats in the battles for the Senate (Phil Gramm is retiring), the attorney-general's job and control of the state legislature. So Mr Sharp cast around last year for someone capable of bringing out Latino voters, and lit on Mr Sanchez.

This was a surprise, perhaps most of all to Mr Sanchez himself. In 1998 he ranked second only to Kenneth Lay, the disgraced former chairman of Enron, a Texas company, in giving money to get Mr Bush started on his run for the presidency. That hardly looked like the act of someone planning to run for office as a Democrat. But it made sense in Texas. Pragmatic Texan Democrats—most of whom had got along well with Mr Bush—were happy to forgive someone who looked a winner. Their calculation is a mirror-image of the Republicans' reckoning in California, where Democrats dominate state offices, to support Richard Riordan, a liberal, in his bid to become governor.

The first hitch in Mr Sharp's plans for Mr Sanchez was the entry last month of another Democrat into the race. Dan Morales, a former attorney-general, is more widely known in the state than Mr Sanchez, and is

a seasoned campaigner. He lacks Mr Sanchez's money, however, and the party's leaders are wary of him. Not only did he swing from left to right as attorney-general, but he is also under federal investigation for trying to channel to a friend, as lawyer's fees, some of the $17-billion settlement he negotiated on behalf of Texas with the tobacco companies.

In fact, having to fight the Democratic primary on March 12th rather than just cruise through it may well do Mr Sanchez good. Until Mr Morales's arrival he had kept his head down, making few criticisms of Mr Perry during the latter's unspectacular first year in the job. Now he is up and swinging, having spent $4.4m on television advertisements in the past six weeks and repeatedly challenged his rival to explain himself in Spanish—in which Mr Morales, despite his name, is far from fluent.

Mr Sanchez has a way to go. He is awkward on the podium. Talking about education to a black audience in Austin in February, he jumbled his figures. Asked afterwards why he had not attacked Mr Morales for failing to support affirmative action at the University of Texas, he replied, disarmingly, “I guess I just forgot.”

Still, his millions buy a lot of barbecued beef, and its smoky smell draws a good crowd to his rallies, where volunteers with clipboards work the hungry queues, making sure that people are registered to vote and helping them sign up if they are not. In any case, lack of polish and garbled speeches are no great drawback in Texas politics. Smoothness, in Mr Sanchez's view, is an attribute of politicians like Mr Morales and Mr Perry, who have caused all Texas's problems; honest Mr Sanchez knows how to fix things.

Education, he says, needs fixing first, and he is right. Only 12% of Texan children get a college degree; 11% do not even finish high school. Beyond pointing his finger at the problem, though, Mr Sanchez has not said much about how to realise his goal of teaching all children to read and do basic maths by the time they are eight. That is probably because there is not much money for it. The recession and low oil prices (not to mention the collapse of Enron) have swung the state from budget surplus to its largest-ever projected deficit. Fixing education will eventually need a reorganisation of the tax system, away from property taxes and towards an income tax. But to mention that before the election would be suicide.

And what will Governor Perry do? He has won tough battles in the past. Eventually, he will probably follow Mr Morales in trying to turn Mr Sanchez's business experience against him: one of his Laredo banks failed in the 1980s savings-and-loan scandal, and he was investigated for laundering drug money. For the moment, however, Mr Perry is happy to sit back and watch the Democrats mangle one another, good Texas sport.

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Guns and children

Bang, bang, you're dead

Feb 28th 2002 | CHICAGO
From The Economist print edition

More guns at home means more child deaths. Surprised?

Get article background

THE gun lobby argues that guns don't kill people; people do. Yet a study by scholars at the Harvard School of Public Health, published in February's *Journal of Trauma*,finds that, when it comes to killing children, guns do help.*

Easy as ABC
Incidence of suicide, homicide and gun accidents
5-14 year olds, 1988-97

	High-gun states	Low-gun states
Gun suicides	153	22
Non-gun suicides	69	82
Gun homicides	298	86
Non-gun homicides	143	110
Gun accident deaths	253	15

Source: Miller, Azrael and Hemenway, February 2002

Firearms kill more children in the United States than any other cause except motor-vehicle crashes and cancer. Over the period studied, 1988-97, nearly 7,000 children aged between five and 14 were killed with firearms. Before an American child reaches 15, he or she is 12 times more likely to die of gunshot wounds than a child anywhere else in the industrialised world.

But is it the guns that matter, or the kind of people who own them? The study's authors, Mathew Miller, Deborah Azrael and David Hemenway, find that states with a lot of guns have higher rates of gun suicide, homicide and deadly accidents among children aged between five and 14, even after allowing for factors such as poverty, education level and urbanisation. Yet those states do not have a higher rate of suicide by means other than guns.

Children in the five states with the highest rate of gun ownership (Louisiana, Alabama, Mississippi, Arkansas and West Virginia) were 16 times more likely to die from a gun accident in the decade studied than children in the five states with the lowest rate of gun ownership (Hawaii, Massachusetts, Rhode Island, New Jersey and Delaware). Children in the “high-gun states” were also seven times more likely to die from a gun suicide and three times more likely to die from a gun homicide.

It is possible, as the authors point out, that people who live in states with high rates of child homicide may buy guns to protect themselves. But that cannot explain the relationship between guns and suicide and accidents. The lesson is simple. More guns kill more children.

* “Firearm Availability and Unintentional Firearm Deaths, Suicide and Homicide Among 5-14-Year-Olds”. *Journal of Trauma*, 2002

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New York city's schools

Hard to expel

Feb 28th 2002 | NEW YORK
From The Economist print edition

The Board of Education may be failing, but it won't be going

WANT to blame someone for the sorry state of New York city's schools? Take your pick. Mayors can be difficult; the state isn't paying its fair share; everyone would like more money from the federal government. But, increasingly, fingers are pointing in one direction: the Board of Education, the independent body that oversees the school system. Democratic state legislators, once the most steadfast supporters of the “Board of Ed”, have let slip that they are willing to pass legislation giving the mayor more power over the board. If this happens, it will mean a sharp shift of power in the city.

Every mayor since Ed Koch has tried, and failed, to dump the Board of Ed. When its seven members are not squabbling among themselves or being chauffeured around in city-owned cars, they are often busy stifling bright ideas. The present mayor, Michael Bloomberg, has vowed to do what his predecessors could not. He is supported by a growing number of experts from across the political spectrum, who believe that greater mayoral control of education would be most helpful to voters. If schools are not better in four years, they will know whom to blame.

Unfortunately, the power to bring the school system under mayoral control lies not in New York city but in Albany, the state capital. The Board of Ed was created in 1969 by the state legislature to insulate the school system from politics. As each of the five New York city borough presidents appoints one board member, and the mayor appoints two, there should be a balance of power. In reality, with no one group in clear control, the board has become a battleground between mayors and borough presidents. Yet the Democrat-controlled state assembly, the lower legislative chamber, has long refused to let it die—largely, cynics say, because of the patronage power afforded by all those jobs in school administration.

This week, in hearings about the board's future before the city council, Mr Koch suggested that Mr Bloomberg create a special committee of New York's great and good that would promise to support the opponent of any state legislator who resisted abolishing the board. This bold plan looks less likely to succeed than a limper compromise, proposed by Democratic legislators, that the board's chancellor, currently chosen by the board, could become a mayoral appointee. That would give the mayor more control, though there would be nothing to prevent his favourite being hamstrung by the board.

A more efficient solution, supported by the powerful teachers' union, would be to give the mayor power to appoint a majority of the board. A similar remedy has worked well in Chicago, where in 1995 the mayor was given the power to appoint all the members of that city's Board of Education, and the schools have improved. Unfortunately, in New York, Democratic state legislators say that, in return for giving the mayor more control of the board, the state would increase its fiscal oversight of the school system to prevent the city from making cuts in spending.

In too many New York city schools the buildings are run-down, caretakers steal toilet paper, physical-education programmes are non-existent and qualified teachers (who earn 20% less than in the suburbs) are hard to find. These problems will not disappear if the Board of Ed is reformed. But, in a period of budget shortfalls, tinkering with the board is one of the few cures the city can afford.

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White House discipline

The axes of Bush

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Exit David Frum, the president's phrasemaker

THE author of the phrase “axis of evil”, which featured so prominently in the president's state-of-the-union address, has put his last words into the president's mouth. On February 25th David Frum left the White House's speech-writing team to resume his previous career as a journalist.

Was he pushed or did he jump? Mr Frum says he resigned of his own free will—indeed, that he submitted his letter of resignation five days before the state-of-the-union speech—and the White House press office backs him up. Others suggest he was pushed. The trouble, they say, is not that he put those explosive words into his boss's speech but that he claimed credit for it. His wife, Danielle Crittenden, sent an e-mail to friends expressing “wifely pride” in the fact that her husband had come up with the phrase. The e-mail found its way into *Slate*, an online publication.

Two things are certain. The first is that any European who interprets Mr Frum's departure as a sign that his boss is rethinking his foreign policy is going to be disappointed. The administration is more interested in logistical questions, such as how long it will take to build enough smart bombs to make an assault on Iraq possible, than in appeasing the more tremulous sort of Europeans, whom Mr Bush increasingly puts in the same mental box as academics and other lily-livered nitpickers.

The second necessary reflection is that the Bush administration is the most disciplined in living memory. It is hardly surprising that it is tighter-run than its predecessor. The unexpected thing is how successful it has been at moving to the opposite extreme. The Bush administration focuses relentlessly on a handful of priorities. Most senior officials are self-effacing to a fault. The one media superstar, Donald Rumsfeld, is relentlessly “on-message”. Leaks are vanishingly rare.

The White House press team is a master of the twin arts of bullying and bamboozling. Ask Ari Fleischer, Mr Bush's press secretary, what his boss had for dinner and you will be subjected to an evasive burble; ask a question about the administration's connections with Enron and you may suddenly find it hard to gain entry into the White House. But even if Karen Hughes and company were not so good at their jobs, journalists would still be scrambling for information. Rival officials are currently locked in head-to-head conflict over one of the most contentious issues in years: what to do about Mr Frum's axis of evil. But almost none of these disagreements has found its way into the press.

The administration was obsessed with discipline long before September 11th. The president visibly bristles if people turn up to meetings a moment late. One reason for this is Mr Bush's own transformation from drunken Prince Hal to self-controlled Henry V. Another is his experience of watching his father's administration being torn apart by warring factions. A third is his obsession, as a former baseball entrepreneur, with the importance of team spirit. The shortest way to the dole queue in the Bush administration is to put your ego before being a good team player.

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Atlanta

Who shot the sheriff?

Feb 28th 2002 | ATLANTA
From The Economist print edition

Murder, corruption and racial fury in DeKalb County

AP

Dorsey sees a conspiracy

THE murder of Derwin Brown is, as one local puts it, the stuff of bad dreams and bad novels. Mr Brown was elected sheriff of Atlanta's suburban DeKalb County in August 2000. Four months later, and three days before taking office, he was gunned down outside his house. Rumours of a political motive for the murder began almost at once. Mr Brown's widow said that, when she saw her husband's body, her first thought was, “Sidney did it”—Sidney Dorsey, that is, who had unexpectedly lost the sheriff's post to Mr Brown after one term in the job. On February 22nd a grand jury indicted Mr Dorsey on charges of murder, racketeering and abuse of office. Two of his former employees are also charged with murder.

Although Mr Dorsey is not the first DeKalb sheriff to be accused of abusing the office, the list of allegations against him is impressive. He is said to have sent prison inmates to work at the homes of political supporters of his wife Sherry, an Atlanta councillor, and to have taken bribes in return for private contracts with the jail. One of Mr Dorsey's co-defendants had been among 40-odd jail employees whom Mr Brown, promising to clean up the sheriff's office, planned to dismiss.

A former deputy sheriff and an accomplice are alleged to have told prosecutors that Mr Dorsey asked them and two other men to kill Mr Brown. The four drew straws to decide who would pull the trigger. In exchange for their co-operation, the two who came forward were given immunity from prosecution; the former deputy sheriff also accepted reduced charges in an unrelated shooting.

The DeKalb sheriff's role is odd. Although not part of the police force, he runs the jail and its budget of $40m-plus a year. No one, even the county commissioners who set his budget, can fire him. This had already caused trouble: Mr Dorsey's predecessor is in jail for taking kickbacks.

The powerful Georgia Sheriffs' Association has opposed attempts to change the DeKalb sheriff's status, but will find itself in a weaker position if Mr Dorsey is found guilty. Thomas Brown (no relation to Derwin Brown), who became interim sheriff after Derwin Brown's murder and full sheriff in a special election in March 2001, has tried to sort out the mess, for instance by seeking audits for Mr Dorsey's period in office. Vernon Jones, DeKalb's chief executive officer, was recently granted more power to sack county officials (but not the chief of police or the sheriff).

On losing office, Mr Dorsey made vague remarks about white conspiracies against him. His paranoia is shared by many of Atlanta's black politicians. DeKalb County, once almost all white, now has a substantial black middle class—and, except for the district attorney, all the players in this drama are black, which makes it hard to believe the charges of racism. Ms Dorsey, known for pitting poor blacks against more affluent white newcomers in her district, resoundingly lost her council seat in November. It did not help that her husband was spotted destroying her opponent's campaign signs.

All this may not bode well for another politician who tends to call his critics “racist”: the former mayor of Atlanta, Bill Campbell. For two years a federal grand jury has been examining charges that Mr Campbell and his aides took bribes for city contracts. Mr Campbell has called the investigators “racist dogs”, and a preacher who is rallying support for Mr Dorsey says the mayor, too, is a victim of racism. Oh for a future when quiet competence will be this city's only election issue.

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Lexington

Bob Zoellick's grand strategy

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Great stuff, but does it have the president's support?

DURING the 2000 campaign, George Bush famously talked of tearing down “terriers and bariffs”. Just over two years later, America's war president is wondering whether to put those snarling curs right back in place to safeguard American steel, an industry he now calls a vital national interest. Does this mean that Mr Bush is really a protectionist?

The best case for saying “No” is Robert Zoellick. In the usual way of things, America's top trade negotiator is either a back-slapping pol with a fat Rolodex (see Mickey Kantor, Bill Clinton's first trade tsar) or a sharp-tongued lawyer fighting fiercely for America's mercantilist interests (see Charlene Barshefsky, Mr Clinton's second appointment). Mr Zoellick is neither. Nor is he a natural member of the Bush team. Although he served in both Ronald Reagan's Treasury and George Bush senior's State Department as a protégé of James Baker, he is not a corporate titan, a conservative ideologue or a Texan. With his coiffed moustache, bookish manner and ill-concealed intellectual arrogance, he is hardly the sort of guy Mr Bush would normally hang out with.

But he does have a strong grasp of what the president claims to believe in: the fundamental importance of free trade. Economic integration, in the Zoellick world-view, is inextricably bound up with democracy and freedom as well as with prosperity. Long before September 11th, he was linking trade and security policy. America, he said, should promote free trade by any means available, across the globe. After that day of horror, he spoke of trade policy as part of the war against terrorism. Implicitly, Mr Zoellick sees his job as that of chief strategist, devising the networks and alliances needed to push trade forward.

Though little noticed in Washington, he has notched up some impressive successes abroad. Trade relations with the European Union—in disarray at the close of the Clinton administration—have been sufficiently repaired that Mr Zoellick can now claim (self-servingly but aptly) that economic links, rather than security alliances, are the glue of the present transatlantic relationship. While foreign-policy types squabble with each other over Mr Bush's “axis of evil” speech, Mr Zoellick and his best pal, Pascal Lamy, Europe's top trade man, will be calmly sorting out their disagreements for long hours over the telephone.

The alliance between these two trade tsars (both keen on marathon-running as well as marathon telephone calls) is the linchpin of today's global trading system. Together, Mr Zoellick and Mr Lamy have settled fights on subjects ranging from bananas to copyright on Irish music. Together they brought about a new round of global trade talks in Doha last November. Mr Zoellick dominated Doha, winning the trust of poor countries with concessions on patents and anti-dumping rules while firming up a trade agenda that would serve America's interests.

Mr Zoellick dominated Doha, winning the trust of poor countries while firming up a trade agenda that would serve America's interests

Back home in America, however, the going has been tougher. Partly it is a question of style: most congressmen tolerate, rather than warm to, Mr Zoellick's self-confident intellectualism and highfalutin ideas. Not everyone buys his grand strategy. For many Democrats, the link between free trade and fighting terrorism went down especially badly: it implied, they thought, that anyone sceptical of free trade was unpatriotic.

Yet even at home Mr Zoellick has had some unexpected success. Last December the House of

Representatives passed Trade Promotion Authority (TPA), formerly known as fast-track, the negotiating mandate which the administration needs to strike trade deals. The authority had lapsed in 1994, and Mr Clinton had failed to renew it. The December vote was close (TPA passed by one vote), highly partisan (only seven Democrats voted in favour of it) and doubtless a result of the Republicans' loyalty to a president at war rather than of any sudden longing for free trade. But it was a victory nonetheless.

Unfortunately, this success may yet evaporate. Relations with Europe, the legislative fate of TPA, even the prospects for concluding global trade talks, are all linked to one decision: on steel. By March 6th Mr Bush must decide whether to put tariffs—and, if so, what sort—on foreign steel, as part of a “safeguard” action to protect America's steel makers.

Big steel companies want a 40% tariff, which would threaten Mr Zoellick's work across the globe. Retaliatory tariffs would be likely. Fights could break out over corporation tax breaks on foreign sales, another area of friction with Europe where America is clearly at fault. If steel gets its way, it will become harder to face down other powerful domestic protectionists, from textile workers to citrus growers. But if they are not faced down the Doha trade round is dead, the grand strategy in tatters.

In principle, Mr Bush's supposed free-trade instincts ought to ensure that he resists protectionist pressure. But the president owes his job partly to the steel workers of West Virginia, a usually Democratic state that voted Republican in 2000. He also has a pledge to keep. On the eve of the 2000 election, Dick Cheney, his running-mate, promised the steel workers that Bush would not forget them. The Republican majority in the House, too, may depend on Mr Bush's steel decision: several Republicans from steel districts won narrow victories in 2000. And, in the messy reality of politics, steel may still hold the free-trade agenda hostage. After passing the Senate, TPA will almost certainly need to pass the House again. Without the votes of Republicans from steel districts, that could be difficult—though not impossible.

So Mr Bush faces a clear-cut test. He can take the politically expedient route, or he can stand up for the cause he claims to believe in. A president with an 80% approval rating does not need to pander too much to special interests. There are surely clever compromises that could offer help to steel workers without making a mockery of the Bush administration as a friend of free trade. If he wants his grand strategy to work, Mr Zoellick has every incentive to come up with such solutions and convince his boss to embrace them.

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About sponsorship

Colombia's conflicts

A call to arms

Feb 28th 2002 | SAN VICENTE DEL CAGUAN
From The Economist print edition

EPA

His decision to stop talking to the FARC has made President Andres Pastrana popular, but leaves many questions

Get article background

FOR the past three years, Colombians' hopes of an end to their country's conflicts have rested on a vast "demilitarised" zone south of Bogota, turned over to the FARC guerrillas to get peace talks going. Now, after President Andres Pastrana ended the abortive talks on February 20th, the country's gaze is once again on the zone—but this time to see what clues its "remilitarisation" might give as to the kind of war Colombia faces.

The timing of Mr Pastrana's abrupt decision to break off the talks, which had produced no tangible accords, only five months before the end of his term, was a surprise. It was prompted by the FARC's kidnapping of a senator. But the "peace process" no longer had public or political backing. Indeed, opinion polls had shown a surge of support for its chief critic, Alvaro Uribe, an independent Liberal presidential candidate, after a last-minute deal brokered by the UN had kept the talks alive in January. And since September 11th, the United States has wanted to see an end to the FARC-controlled zone.

Colombia's army chiefs have long argued that the FARC, which has perhaps 17,000 fighters, was using the zone for war, rather than for peace. But the army's reoccupation of San Vicente and two other towns in the zone had more symbolic than military significance: it enabled Mr Pastrana to fly in briefly to greet townspeople. For several days, the air force had bombed 85 targets in the zone, including rebel camps, suspected drug labs, and bridges and roads built by the FARC, killing three civilians. The guerrillas blew up electricity and telephone lines, and left booby-trapped buses on roads as they melted into the surrounding countryside, which they have controlled for decades.

The FARC hastily abandoned their training camps. A notebook found in one gave detailed instructions on how to shoot down aircraft with small arms. "We've made good use of the past three years, to become more prepared militarily and politically," said a FARC commander at a guerrilla toll-booth on a dusty road in the south of the zone. At another roadblock, the FARC kidnapped Ingrid Betancourt, a presidential candidate who has insignificant support but

recently published a book in the United States.

The armed forces, too, are stronger than they were. They now have around 50,000 salaried professional soldiers (up from 10,000), and a rapid-reaction force of 5,000 troops with 30 attack helicopters. Their fleet of transport helicopters has doubled, to over 200, partly thanks to American aid. The army can now detect and respond to guerrilla manoeuvres. And the right-wing paramilitary vigilantes of the United Self-Defence Forces of Colombia (AUC), who often enjoy the collusion of army officers in the field, have swollen in number, to perhaps 10,000.

Military analysts think the FARC will now step up its hit-and-run assaults on army posts, sabotage infrastructure (especially electricity lines, oil pipelines and water supplies) and kidnap and murder civilian leaders. An immediate aim will be to influence the congressional election due on March 10th, as well as the presidential vote. The FARC has already kidnapped five legislators, including three of the four senators from Huila department, close to the zone. The AUC's paramilitaries are intimidating candidates, too; they have killed two congressmen and are fielding their own candidates in some areas.

The FARC might now step up its assaults on army posts, sabotage infrastructure and kidnap and murder civilian leaders

The FARC has said that it would talk to the next president. But if that is Mr Uribe, whose father was killed by the FARC in a botched kidnapping in 1983, he would agree to meet only, he says, if the guerrillas first stop all hostilities. Many Colombians are looking to Mr Uribe for a quick military solution to the country's conflicts. They would like the United States to help him: in a recent poll, two out of three said they favoured foreign military intervention.

This week, the United States for the first time refused to rule out deploying troops. “It would be wrong for me to say, yes, it is possible, or, no, it's not possible. It's going to be decided at a different level of government,” said Donald Rumsfeld, the defence secretary. The Bush administration had already asked Congress for $98m to train and equip a Colombian army battalion to protect the country's main oil pipeline, from Caño Limon to Coveñas. This has suffered constant sabotage attacks from the guerrillas, which put it out of service for 266 days last year.

Hitherto, American military aid to Colombia has been ostensibly directed at fighting drugs rather than guerrillas. Some administration officials would like to change that, by sharing intelligence on the guerrillas, for example. But such changes will be opposed by Democrats in the Senate, who argue that the armed forces' links with the paramilitaries, who kill as many, if not more, civilians as the guerrillas do, make them unworthy of aid.

Supporters of the peace process have long argued that, without it, Colombia will slide into “all-out war”. Many Colombians reckon that happened long ago. Yet however much aid the United States provides, Colombia's army is unlikely to defeat the FARC militarily. What it can do, though, is weaken the FARC to the point where it agrees to accept democracy as the starting-point for the next set of peace talks—whenever they might be held.

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Politics in Brazil

The beauty and the beast

Feb 28th 2002 | BRASILIA
From The Economist print edition

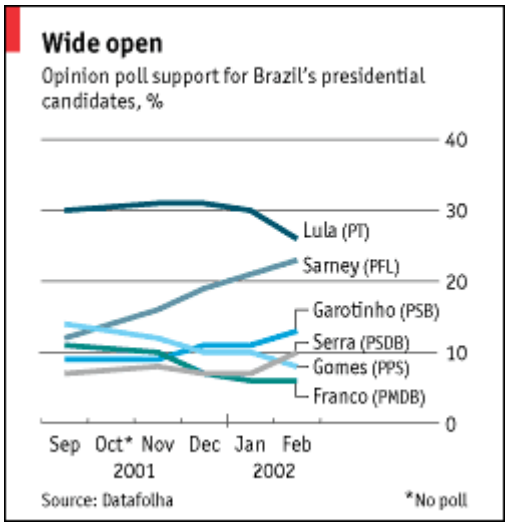
The battle is on to be the government's presidential candidate

Get article background

"HE WOULD be a good president but not a good candidate," President Fernando Henrique Cardoso is said once to have lamented of Jose Serra, a long-standing friend and, until recently, his health minister. Even so, at a convention on February 24th Mr Cardoso's Brazilian Social Democratic Party (PSDB) duly launched Mr Serra as its presidential standard-bearer. In a forceful acceptance speech, he seemed determined to confound both doubters within his party and opponents, who all say his dour looks and surly demeanour will count against him.

Buoyed by a new opinion poll showing that his ratings have at last got into double digits (see chart), Mr Serra was, uncharacteristically, all smiles, as he mocked his critics. "If 'disagreeable' is the worst they can call me after 40 years in politics, that is a great compliment," he said.

Although he still has a long way to climb, Mr Serra has reasons for optimism. His main opponent, Luiz Inacio Lula da Silva of the left-wing Workers' Party, who has dominated the opinion polls since Brazil's devaluation in 1999, is now slipping. Mr da Silva's proposed alliance with the Liberal Party, a small centre-right group, has set off a furious row among his supporters. Having lost the three most recent elections, Mr da Silva thinks this alliance is necessary to broaden his appeal among the voters at large, and has talked of leaving the race if he does not get his way.



Several other challengers, such as Itamar Franco, Mr Cardoso's quirky predecessor, and Ciro Gomes, a soft-left former state governor, seem to be fading. Anthony Garotinho, the populist governor of Rio de Janeiro, is not, but he may choose to seek another term in his current job. Mr Cardoso's popularity has at last recovered to its level before the devaluation, so the president's backing should be an asset to Mr Serra. The polls also suggest that voters do not blame Mr Serra's health ministry for an outbreak of dengue fever.

The bad news for Mr Serra is the continuing strength of Roseana Sarney of the conservative Liberal Front, another of the main parties in Mr Cardoso's broad coalition. Ms Sarney, the governor of Maranhao, in Brazil's poor north-east, has surged in popularity through a propaganda campaign that highlights her charm and glamour more than her policies. The polls suggest she is now tied with Mr da Silva in the first round of voting; she would thrash him in a run-off.

Mr Serra's backers hope that he will catch up once his party starts using its free television slots and plugs his achievements, such as his successful fight with multinational drug companies to cut the cost of AIDS treatments and to make cheap "generic" medicines more widely available. Ms Sarney might then be persuaded to run as Mr Serra's vice-president, or perhaps accept the presidency of Congress.

During a visit to Europe this week, Mr Cardoso, who is barred by the constitution from running again, signalled that he wants to reassemble the centre-right coalition that elected him in 1994 and 1998, even if that means Ms Sarney getting the top spot. The coalition's third main party, the catch-all Brazilian Democratic Movement, lacks a credible contender. The chances are that the coalition will unite behind

whichever of Mr Serra or Ms Sarney is leading the polls by June, when candidates must formally register. This week, however, the Electoral Tribunal complicated matters, ruling that parties must stick to the same alliances at both national and state level—a demanding challenge for Brazil's undisciplined politicians.

Though Ms Sarney has said little about policy, her party favours continuing Mr Cardoso's liberal economic reforms. But does Mr Serra? He has long argued for a more interventionist industrial policy, to boost exports and substitute imports. But he has stressed recently that this would be done “without creating bureaucracy and without privileges for incompetent businessmen”. Mr Serra insists he supports the government's austere fiscal policy, and says he wants an inflation target of just 2.5%. He pledges to press on with reforms—of the tax system and of pensions, for example—that Mr Cardoso has left incomplete. His main divergence from Mr Cardoso was caused by the strong *real* policy, abandoned in 1999. And Brazil has done well since it was forced to let the currency float, as Mr Serra wanted all along.

The troubles of neighbouring Argentina may make voters play safe, and seek the continuation of Mr Cardoso's prudent policies. Brazil's economy is stirring, raising hopes that it is pulling out of the recession it entered last year. Having raised interest rates last year, the Central Bank cut them last week. Rains have replenished Brazil's hydro-electric dams, allowing the government to stop rationing energy. If Mr Cardoso's coalition unites around a single candidate, it has every chance of victory. But which candidate will it be? The opinion polls will decide.

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The media in Canada

Dateline Winnipeg

Feb 28th 2002 | MONTREAL
From The Economist print edition

A new editorial line from Canada's latest media capital

AP

Thought leadership in Manitoba

IT HAS always had much to live down. Winnipeg started life as a fur-trading post, and has never really found a new role. Many Canadians call it Winterpeg: between December and March, the average temperature in Manitoba's capital is about minus 16°C (3° F). The summer brings not relief, but floods and swarms of mosquitoes. Not surprisingly, Winnipeg's population is barely growing. But it has some fiercely loyal sons—and none more so than Canada's most powerful media mogul, Izzy Asper.

Mr Asper controls the country's most profitable television network and a chain of more than 100 newspapers across the country, which he bought 18 months ago from Conrad Black. But he has resisted moving the headquarters of his company, CanWest Global Communications, to Toronto, Canada's media capital. The company remains in Winnipeg, 2,100km (1,300 miles) to the west. As a result, Mr Asper has brought jobs to the city, as well as being a generous donor to local causes.

But there is a more controversial aspect to Mr Asper's devotion to making Winnipeg great again. All of his family's papers, from British Columbia to Newfoundland, are now obliged to print company editorials, on national and international issues, written in Winnipeg. No subsequent deviation from the line they set is allowed in the local papers, which include the market leaders in most of Canada's big cities.

This has provoked howls of protest, and not just because the papers concerned were used to substantial editorial independence before the Aspers took control. Canada is a country of several distinct regions. But ownership of its media is now highly concentrated. And nobody has as much control over what Canadians read and watch as the Aspers.

Mr Asper has strong opinions. He is a former leader of the Liberal Party in Manitoba, and a friend both of Jean Chrétien, Canada's prime minister, and of Israel. Journalists fear that there is now no room for dissenting views: one columnist has been fired, another suspended and several stories killed because they expressed points of view the Aspers disagreed with.

Mr Asper's son, David, who introduced the standard editorials, calls the critics “professional whiners” and “bleeding hearts”. He has invited journalists who are unhappy to start their own papers. He has gone on to use his papers' editorial pages to call for CBC, the main public-service broadcaster and CanWest's chief competitor, to be reduced to a public-information channel. His father has called for the broadcasting regulator to cease to vet commercial television stations for their compliance with rules on Canadian content.

Underlying this campaign is an intense antagonism to what David Asper has called the “media cabal” of Toronto, Ottawa and Montreal. For decades, western Canada has felt shunned and short-changed by “the east”. Winnipeg may sit on the geographical dividing line, but the Aspers know which side of it they are on. The deep-rooted western sense of resentment and indignation has at last found a loud, national voice.

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Mexico's opposition

The déjà vu vote

Feb 28th 2002 | MEXICO CITY
From The Economist print edition

A close fight for the leadership of the PRI reveals familiar flaws

Get article background

WHEN the Institutional Revolutionary Party (PRI) lost its grip on Mexico's presidency in 2000, after seven decades, many predicted that it would quickly disintegrate into warring factions. Not only has it stayed together, but it has offered surprisingly effective opposition to President Vicente Fox's government, which lacks a majority in the Congress. But this week the PRI's careful efforts to revamp itself in line with Mexico's new democracy risked being undermined, as a closely fought election for the party presidency descended into claims of ballot-rigging.

The election took the form of an open ballot, in which any Mexican could vote. Some 3m did, showing the party's renewed vitality. On February 28th, a “preliminary” count gave a narrow victory (by about 50,000 votes) to Roberto Madrazo, a former governor of Tabasco state. But while Mr Madrazo's supporters celebrated, his opponent, Beatriz Paredes, a durable PRI official, claimed that his allies in five southern states had engaged in brazen ballot-stuffing. Party officials delayed announcing the result while they investigated.

For the PRI's future, the identity of the winner may be less important than the manner of victory and the way the fraud claims are handled, given the party's need to show the country that it has broken with its past history of electoral chicanery. Little separates the two contenders on policy. In their campaigns, both invoked the PRI's traditional nationalism. Both are seen as deal-makers, rather than ideologues.

The winner's identity may be less important than the manner of victory and the way fraud claims are handled

Though she comes from the left of the PRI, when speaker of the Chamber of Deputies last year Ms Paredes tried unsuccessfully to improve relations with Mr Fox's government. Mr Fox, however, is said to want Mr Madrazo to win.

Wily, ambitious and unscrupulous, Mr Madrazo made a strong bid for the PRI's presidential nomination in 2000, campaigning as an outsider against the party establishment in Mexico city. He had clashed with Ernesto Zedillo, Mexico's former president, who had tried to get him to stand down as Tabasco's governor over claims that he had rigged his election in 1994. Mr Madrazo has posed as an opponent of “neo-liberalism”, but has ties to disciples of Carlos Salinas, Mr Zedillo's predecessor and an economic reformer. Such ambiguities also characterise his running-mate, Elba Esther Gordillo. She runs the teachers' union, wears Chanel suits and is a personal friend of Mr Fox and his foreign minister, Jorge Castañeda, a former leftist.

The winner stands a good chance of being the PRI's presidential candidate in 2006. And the loser? Were this to be Mr Madrazo, some believe he might leave the party. But the PRI remains a powerful political brand. More likely is a power-sharing deal that keeps the party together, even at the cost of continuing internal strains.

The outcome matters much to Mr Fox, too. So far his government has disappointed, partly because it has failed to get much of its legislation, such as proposed energy and labour reforms, through Congress, where the PRI remains the largest party. Once again, Mexico is hanging on the contentious outcome of an election run by the PRI, just as it did so often in the old days.

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India

Election reverses, killings and a cautious budget

Feb 28th 2002 | DELHI
From The Economist print edition

EPA

A series of setbacks for India's ruling Bharatiya Janata Party means that the chances of real economic reform are starting to recede

Get article background

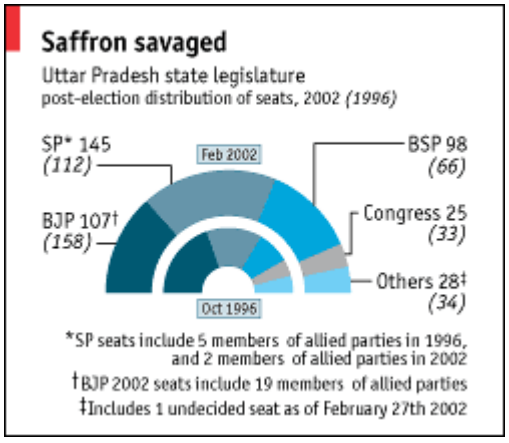
IN NO democracy is the high calling of government immune from contamination by the rough trade of politics, but in India the contrast is unusually stark. Government's prim face this week was that of Yashwant Sinha, the finance minister, who on February 28th presented to Parliament a budget that struggles to speed up a faltering economy without expanding a deficit that is already ruinous. Meanwhile, freshly elected politicians in India's biggest state pondered whether to defect from their own parties to break an electoral stalemate, tempted, it is said, by cash offers starting at 10m rupees (about $200,000).

There is a connection. The elections in Uttar Pradesh and three other states in February were a disaster for the Bharatiya Janata Party (BJP), the party that leads the national coalition government in Delhi and to which Mr Sinha belongs. On top of that comes another crisis: on February 27th a mob attacked a train carrying Hindu activists home from Ayodhya, where they had taken part in a controversial campaign to build a temple on the site of a mosque demolished by Hindus ten years ago. At least 50 died. The prime minister, Atal Behari Vajpayee, cancelled a trip to Australia and told the temple builders to desist. The Hindu groups, which have close links to the Hindu-nationalist BJP, have refused. A confrontation might distract attention from the BJP's electoral humiliation. But it might also sap the political energy required for reforms. Without them, the economy will continue to slow down.

Disaster still seems distant, but that is part of the problem. This year's good monsoon perked up agriculture and the economy overall, raising the growth of GDP from a dismal 4% last year to an estimated 5.4% in the fiscal year ending on March 31st. India can still boast of having one of the world's fastest growing economies. Wholesale price inflation is barely above 1%. India has little external debt, a current-account deficit of less than 1% of GDP and $50 billion of foreign-exchange reserves.

But all is by no means well. GDP leapt after a burst of reforms in

the early 1990s but, as the finance ministry's new economic survey admits, “There has been an unmistakable slowdown in subsequent years.” Industry is weighed down by expensive power, high real interest rates and rigid labour practices. Agriculture is trapped by outmoded rules; this year's recovery was a stroll in the prison yard. Behind many of these ills lies bad budgeting of various sorts, from inefficient tax collection to overstaffing to subsidies of food and electricity. Some wonder whether India is heading for a “growth crisis”, which might trigger another burst of reform.



That burst did not come in Mr Sinha's budget. That is partly because he is intent on putting into effect and extending reforms already announced, as he should be. Thus he removed 50 more items from the list of industries that are not allowed to grow beyond a certain size. The “peak” customs rate has been brought down further, from 35% to 30%. Fertiliser and fuel subsidies were pared. The target for privatisation proceeds is an ambitious 120 billion rupees. In reform-starved areas such as electricity and agriculture it is the states that must take the lead. Mr Sinha sought to cajole them into doing so by linking central government aid to reforms.

The tax and spend side of the budget is what caught most people's eye. Spending on roads, railways and other infrastructure is to go up substantially. So are taxes: there is to be a net 3% surcharge in income taxes and a tax on dividends was reintroduced. But Mr Sinha's measures will do little to curb the fiscal deficit, which is pushing public debt to unaffordable levels and keeping interest rates high. It is to be an appalling 5.7% of GDP this year; next year's target calls for only a modest drop, to 5.3%.

The politics of caution

Mr Sinha's caution may owe something to the drubbing his party has just endured: with an unwieldy and increasingly fractious coalition to manage, the chances of getting tough measures through Parliament are diminishing. The BJP held power or a share of it in all four states that held elections in February. In all cases they lost it. Defeat stings most in Uttar Pradesh, where the BJP was knocked into third place (not counting its allies) by the unexpectedly strong showing of the Bahujan Samaj Party (BSP), which appeals mainly to Dalits (formerly called untouchables). It lost almost half its seats.

The BJP could yet cling to power in Uttar Pradesh. The apparent winner, the Samajwadi Party, cannot form a government on its own and does not have enough natural allies to form a coalition. In theory it could join forces with the BSP, but many Dalits are at odds with the middle castes that make up the bulk of the Samajwadi Party's support and the two parties' leaders hate each other. The Samajwadi Party is expected to try poaching a group of BSP legislators rather than embracing the party as a whole. If that fails, the state may be run by its governor for several months. Eventually, the upper-caste-dominated BJP and the Dalit-led BSP, odd but willing bed-fellows under the right circumstances, might form a government.

That might not help the BJP much in Delhi, though. The rebuff in Uttar Pradesh makes Mr Vajpayee, the moderate face of his Hindu-nationalist party, look very feeble, though his 18 allies in the ruling coalition are unlikely to defect soon, because that would mean aligning with the opposition Congress party, their rival in many states, or facing a new election. “Nothing dramatic will happen,” predicts Salman Khurshid, a leader of the Congress party, but “under the surface cracks will appear.”

The problem for India is that Mr Sinha and other reformers in the government still have so much to do. The widening political cracks, however, now threaten to cut the ground from beneath their feet.

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About sponsorship

Daniel Pearl

Misjudging the terrorists

Feb 28th 2002 | LAHORE
From The Economist print edition

The American journalist was killed for revenge

Get article background

Reuters

Pearl: blameless victim

THE Pakistani authorities, including the president, General Pervez Musharraf, were reasonably sure that Daniel Pearl would be freed by his kidnappers. Along with the rest of the world, they learnt of the American journalist's beheading only when a taped film of the grisly act was delivered to the American consulate in Karachi on February 22nd. How did they get it so wrong?

The kidnappers belong to a group called Jaish-e-Muhammad, whose leader, Maulana Masoud Azhar, was detained by Pakistan in January after the United States had put pressure on Pakistan to crack down on militant activity in the Indian part of disputed Kashmir. Ahmad Omar Saeed Sheikh, a British-born member of the group, is also in custody accused of being involved in the kidnapping of Mr Pearl. Until recently both men were free to rent or recruit supporters to fight in Indian Kashmir, with a nod from Pakistan's ubiquitous intelligence agency, the Inter-Services Intelligence directorate (ISI).

Then September 11th happened. The Americans stepped up demands that Mr Sheikh be extradited on terror charges, in connection with the kidnapping of an American in India. Mr Sheikh immediately went underground, probably on ISI advice. Extraditing him might have led to embarrassing disclosures of ISI links with his associates, among them possibly members of al-Qaeda. In January, the United States declared Jaish-e-Muhammad a terrorist outfit and demanded action against it. When General Musharraf complied with the arrest of its leader, activists in the group, including Mr Sheikh, sought revenge by kidnapping Mr Pearl and executing him.

Insiders say the government's optimism that Mr Pearl had been kept alive was based on the hope that Mr Sheikh would secretly co-operate with his former ISI handlers and save the situation for Pakistan. That he did not is a measure of how much America and Americans are hated by the religious extremists in Pakistan who were thrashed by the United States in Afghanistan and betrayed by the Pakistani government at home. Mr Sheikh gave himself up only when the authorities kidnapped his wife and close family members.

General Musharraf has vowed to “liquidate” all the murderers of Mr Pearl. This may not be easy. A fundamentalist backlash is developing against Pakistan's new pro-western stance. Since the crackdown on religious extremists began in January, many people have died in sectarian terrorism in Karachi. On February 26th, ten people from the minority Shia community were shot in a mosque in Rawalpindi. The fight between the extremists and the state that spawned them may have only just begun.

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Peace in Sri Lanka

Viking rule

Feb 28th 2002 | COLOMBO
From The Economist print edition

The Norwegians settle down to a long haul as peacemakers

Get article background

NERVOUSLY, Sri Lanka has entered a period of peace that it hopes will end 19 years of civil war. Like gunslingers unable to break the habit of killing, the two sides fought right up to February 23rd, the date a “permanent” ceasefire came into operation. Assurances were given that a battle going on between the navy and boats of the Tamil Tigers would soon be over and would not compromise the ceasefire; and anyway only one navy man had died. It may well be that in a war that has cost more than 60,000 lives, one more death hardly made a difference except to the victim's family, embittered that he was caught by the final bullet.

If it was the final one. Sri Lankans are split over whether a lasting peace is in prospect, with pessimists probably in the majority. They have memories of four previous ceasefires that collapsed, although none was advertised as “permanent”. In an opinion poll in January, some 40% of the island's Sinhalese were either opposed to the new peace bid being put together by Norway or were wary of it. Sinhalese make up almost 75% of the population. They want peace as much as anyone, but many believe that any deal acceptable to the Tamil Tigers would be a sell-out. The Tigers' war aim has been a separate “homeland” in the north and east of the country, where Tamils are in the majority.

Aware that he must have at least a majority of Sri Lankans backing a peace deal, the prime minister, Ranil Wickremesinghe, said on February 26th that any such deal would be put to a referendum. Mr Wickremesinghe's party won power in a parliamentary general election in December partly on a promise to seek peace. But he does not have a free hand. He has to work with Chandrika Kumaratunga, Sri Lanka's executive president and head of state, who is elected separately and whose party was defeated in December. Mrs Kumaratunga once tried talking to the Tigers but gave up and ordered the army to try to finish them off. She was not consulted about the “memorandum of understanding” that governs the ceasefire and is said to be opposed to it. She may make Mr Wickremesinghe pay dearly for what she regards as his insolence in proceeding without her consent.

But nor, curiously, was Mr Wickremesinghe consulted about the wording of the memorandum. It appears to have been composed by the Norwegian foreign ministry after discussions with the Tigers. The Tigers' leader, Velupillai Prabhakaran, turned down a Norwegian proposal for a joint signing ceremony. He signed the memorandum in his jungle hideout. It was then brought to Colombo for Mr Wickremesinghe's signature.

Some Sri Lankans are already shaking their heads over what they see as early evidence of Mr Prabhakaran's likely intransigence. How will it be possible for a free-market democracy to do a deal with a man who believes in a one-party state and a command economy? The question certainly worries the country's Buddhist leaders, whose 53,000 monks provide guidance to the faithful from 6,000 temples.

The Janatha Vimukthi Peramuna (People's United Liberation Front) or JVP, a band of former nationalist insurgents, is also suspicious of the memorandum. One of its leaders called it “an agreement of betrayal”. The JVP has close links with the army's foot-soldiers, many of them recruited from the poorer regions of rural Sri Lanka, and could easily make a lot of trouble. Then there is India, which has an agreement with Sri Lanka, signed in 1987, that gives the regional superpower an interest in any deal with the Tigers. India still wants to bring Mr Prabhakaran to trial, accusing him of complicity in the murder of a former Indian prime minister, Rajiv Gandhi, in 1991.

The Norwegians will by now be aware of the formidable task they have taken on. Judging from a reading

of their memorandum—several thousand words long, with its preamble, four articles and two annexes, designed to cover every aspect of the “permanent” ceasefire—it would seem that they aim to rise above Sri Lanka's political differences and enforce the peace with Viking-like tenacity. One of their strengths may be that they are not in a hurry. The Norwegians will bring in their own monitors, who will act as chairmen of monitoring committees to be set up throughout the country. When all is calm, the talks on the future of the country can begin. Mr Wickremesinghe guesses they may start in about three months' time.

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Elections in Laos

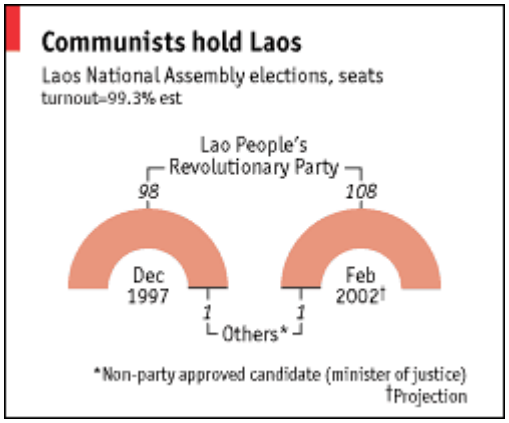
Not exactly a cliff-hanger

Feb 28th 2002 | VIENTIANE
From The Economist print edition

They may not care much about politics, but Laotians are getting sick of graft

THE voice of the commère in the sleek silk skirt echoed through the polling station, amplified by a tinny sound system. The people of Laos, she explained, were about to vote in an election for a new national assembly, which would carry the country's 26-year-old communist revolution forward to new triumphs. Like magicians performing a conjuring trick, two election workers held up the first ballot box to show that it was empty. Up swept both cars of the presidential motorcade, bringing Khamtay Siphandone to choose between the various party functionaries running for office. As Mr Khamtay cast his ballot, a journalist asked him what would change as a result of this uplifting spectacle. “There won't be any change,” the president explained, since last year's party congress had already undertaken all the necessary measures to update and reinvigorate the revolution.

Although the vote took place on February 24th, the country's mountainous terrain, sparse population and poor roads have slowed down the collection and counting of the ballots. But no one is in suspense. The Lao People's Revolutionary Party is the sole legal political organisation, though non-communist cadidates are in theory allowed to compete, if they show a “sufficient level of knowledge of party policy”. Only one man, apparently, met this standard: the minister of justice, hardly an anti-establishment firebrand. Barely half the seats were contested at all.



Disillusioned Laotians could not even abstain: voting is compulsory, and party officials were checking to make sure no one spoiled his ballot. As the hammer-and-sickle flags draped over the polling booths attested, Laos remains a resolute and unabashed communist dictatorship.

But not such an unpleasant one. The party has made an effort to spruce up its image, cutting the average age of its candidates by ten years. There are few signs of dissent. A bombing campaign that caused a stir in 2000 has stopped as mysteriously as it started. When dissident Laotian émigrés attacked a border post last year, they failed to ignite any rebellious response within the country. In part, this may stem from fear: five students who called for greater freedoms in 1999 have disappeared without trace. But most Laotians are simply too poor to worry about politics.

The United Nations Development Programme ranks Laos between Nepal and Bangladesh in terms of general development. Almost half of Laotian children are stunted; more than half of Laotian adults are illiterate and half of the population as a whole lives below the government's own poverty line. Faced with these dire figures, the government has instituted a degree of market reform.

But the government, too, is poor. A third of its income comes from foreign aid. Much of that goes towards badly-needed infrastructure. But plenty is going astray, if the porticoed villas and snazzy cars of Vientiane's apparatchiks are anything to judge by. Ordinary Laotians, so mild in other respects, have begun to gripe about corruption. In the meantime, according to the UN, the share of wealth in the hands of the richest 10% of the population has reached 30.6%. Something for the next party congress to ponder, perhaps.

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Afghanistan's currency

Politics of trade

Feb 28th 2002 | KABUL
From The Economist print edition

The afghani is a guide to stability

Get article background

IF YOU want a measure of the stability of post-Taliban Afghanistan, its currency is probably as good as any. After the events of September 11th, and while the Taliban were still in control of Kabul, $1 could buy about 73,000 afghanis. When the Taliban abandoned the capital in November, the afghani strengthened to 23,000 to the dollar. The summit of international donors in Tokyo, with its uncertainty about how much aid would be forthcoming, produced a wobble. An ill-timed suggestion by an IMF official visiting Kabul at the end of January that the country could do worse than to adopt the dollar temporarily as its official currency severely weakened the afghani. Panicky Afghans did their best to unload notes, fearing that they would soon be worthless.

Calm has returned now that it is realised that introducing the dollar officially would take years. This week $1 was reckoned by the UN to be worth a sensible 27,000 afghanis. The governor of the re-established central bank in Kabul says that the afghani will continue to stabilise as the influence of the warlords declines and security generally improves. The printing of new afghani banknotes has been stopped, at least for the present.

The heroes of the currency whirlwind are the traders, calmly sipping sweet green tea as they manage the afghani's dizzying fluctuations. The afghani is traded not just in Kabul but also over the Pakistani border in the Chowk Yadgar district of Peshawar. Traders in the two markets check the going rate with each other on mobile phones.

Not only do the traders have to keep tabs on the market, they have to check that all their notes are pukka. Currency traders spend a lot of time flipping through great bundles of afghanis, deciding what is acceptable currency and what is worthless. Some cautious traders will make an offer to buy notes in the morning, but only confirm the deal later in the day after they have checked the stuff.

A curiosity of the Taliban era was that the contract to supply the official currency was retained by Jamiat-i-Islami, the political party that supplied the previous government. It did not seem to bother the mullahs that the Jamiat supported its foe Ahmad Shah Masoud. Nor did they mind that the money was printed in Russia. Some questionable money is still produced in Afghanistan, on presses imported from Russia. A currency printing press of his own gives prestige to a warlord. His commanders watch in awe as the folding stuff appears. The economics of inflation are not much studied in Afghanistan.

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Discrimination in China

No small matter

Feb 28th 2002 | BEIJING
From The Economist print edition

An “under-height” Chinese goes to court

JIANG TAO, who is below the average height for a Chinese man, has brought a case against a branch of China's central bank for discriminating against job applicants who are on the short side. If he succeeds, which he may well not, the case will strike a blow for the smaller citizen. But its potential ramifications go much further.

Mr Jiang is the first person to persuade a district court in China to consider if a citizen's constitutional rights have been infringed by a government institution. In his lawsuit he accuses the bank of breaching Article 33 of the constitution, which says that all citizens are equal before the law. His lawyer, Zhou Wei, says the lawsuit is significant because it opens up the way for citizens actually to make use of their constitutional rights.

The constitution supposedly guarantees numerous rights that are routinely ignored in China: notably, freedom of speech, of the press, of assembly, of association and of religion. In practice, given the Communist Party's tight control of the courts and its abhorrence of any challenge, there is virtually no chance that a Chinese court would allow a citizen to challenge a government body for infringing these particular freedoms, which are rather more sensitive than matters of height. Mr Zhou accepts that, in the absence of political reform in China, it is not even worth publicly suggesting the possibility. For the moment it is all theory. No date has been announced for Mr Jiang's case to be heard. But the Chinese media and legal experts are paying attention.

At least for the 50% of the population that is shorter than average, this case is significant enough. Mr Jiang's complaint is that the office of the People's Bank of China in Chengdu, the capital of Sichuan province, advertised a job in a local newspaper specifying that male candidates must be at least 1.68 metres (5ft 6in) tall and females 1.55 metres. Mr Jiang, who is studying law at Sichuan University, was three centimetres too short to apply. He has told the court that so too were some 40% of Sichuan's men.

Such height requirements are common in China. Shanghai's East China University of Politics and Law says that male students must be at least 1.70 metres in height and females 1.60 metres. Since these heights are about the same as the national average for university students from urban areas, and students from rural areas tend to be a bit smaller, roughly half the age-group is automatically ineligible. It was reported recently that a well-qualified teacher in Fujian province was fired when it was found that he was four centimetres shorter than the required 1.60 metres.

Height is thought to be important for those in jobs carrying authority, in contact with foreigners (it would be undignifying to have to look up to them) and in catering and leisure industries (tall is supposedly more beautiful). Shortness, however, need not be an obstacle to attaining political power—at least if you are Deng Xiaoping, who, despite being barely 1.50 metres tall, ruled China for more than a decade.

Mr Jiang has claimed a constitutional right because there is no law in China that specifically prohibits height discrimination. Even more remarkable, perhaps, is that his local district court in Chengdu agreed in January to take on such a potentially sensitive case. District courts are at the bottom of the judicial ladder.

But last June saw a hint of change, when the Supreme Court backed a case submitted to a provincial court in Shandong province by a woman who claimed that her constitutional right to be educated had been violated. Even the Communist Party's own mouthpiece, the *People's Daily*, quoted an official as saying this was “a major breakthrough”.

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China and America

No change

Feb 28th 2002 | BEIJING
From The Economist print edition

The Bush-Jiang summit achieved little

Get article background

GEORGE BUSH's 30-hour visit to China last week was almost as unproductive as it was short. It helped restore a measure of stability to an often volatile relationship. But on the most sensitive disputes between America and China, there was little sign of progress. Mr Bush refused to budge on his support for Taiwan, while China dug in its heels on the question of missile proliferation.

The Americans thought they had made big progress on the missile dispute in November 2000, in the final weeks of the Clinton administration. At that time the Chinese agreed to publish a list of missile-related technologies that they would subject to export controls. They also agreed to publish regulations concerning such controls. Neither pledge has been fulfilled. American hopes of a breakthrough during Mr Bush's trip proved vain, though at least talks will continue in America next month.

What particularly concerns the Americans is China's involvement with Pakistan's missile programme. “The link between Chinese companies and the Pakistani missile programme is very, very deep,” says a former American official. He says that though the Pakistanis can now build a single-stage missile similar to China's short-range M-11 on their own, they need help in their development of the 750km (470-mile) Shaheen 1 missile and the 2,500km Shaheen 2.

Less than two weeks before September 11th, the United States imposed sanctions against a large Chinese state-owned company, the China Metallurgical Equipment Corporation, for allegedly selling missile components to Pakistan. The Chinese insisted that American intelligence concerning the company's activities was simply wrong. The sanctions made China even more reluctant to put its earlier promises into practice. Further sanctions announced in January, this time for allegedly providing Iran with technology that could be used to make chemical weapons, did not please China either.

Despite the sales to Iran, the Americans are generally pleased with China's progress in implementing international safeguards on exports of technologies related to nuclear, biological and chemical weapons, as well as on exports of complete, nuclear-capable missiles. But when it comes to missile-related technologies, China has been far slower in coming round to the American view. “The Chinese don't really see missiles as weapons of mass destruction while most American policymakers equate the two,” says Evan Medeiros of the Monterey Institute of International Studies.

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Human trafficking

Desperate cargo

Feb 28th 2002
From The Economist print edition

Ministers want to fight human trafficking and smuggling in Asia

LAST spring, 70 unlucky Cambodians, lured by the prospect of high-paying jobs, put their fate in the hands of traffickers who got them into Thailand. But there, instead of the promised Eldorado, they found a life of slave labour on a fishing ship. While in Indonesian waters, they were intercepted by local authorities and eventually made it home. Thousands of others are not so lucky. Last October, over 370 asylum-seekers being smuggled to Australia drowned when their vessel sank.

AP

Boat to nowhere

Ministers of some 30 countries in the Asia-Pacific region got together in Bali this week to tackle the related scourges of people-smuggling and of trafficking, both largely controlled by organised criminal networks. As well as the usual vows of better co-ordination, Australia is expected to provide cash to help its neighbours tackle the problem.

The trafficking of people—the business of trapping them into labour or prostitution by force or deception—has been a fast growing scourge. The American government believes that across the world between 700,000 and 1m women and children are trafficked every year, half of whom come from Asia. According to the International Organisation for Migration (IOM), Vietnamese are sent to Cambodia mainly to supply the sex industry and to Taiwan and China for marriage, while Cambodians shipped to Thailand, Taiwan and Singapore end up as beggars, sex slaves or domestic labour.

Over the past ten years, 200,000 women and children from Bangladesh have ended up as prostitutes in Pakistan. Another 200,000 have become maids in the Middle East, where young boys are also in demand as camel jockeys. India has been a top destination for Nepalese and Bangladeshi women. In Thailand, the IOM tries to reunite Cambodian families whose children have been “rented” for work or begging for 1,000-1,500 baht ($23-34) a month—their parents being strangled by debt or believing their children are well taken care of. In 2000, the Chinese police rescued 123,000 trafficked people.

Those who hope to escape poverty or violence at home and manage to avoid the clutches of traffickers often fall instead into the hands of people-smugglers, who charge them hefty sums of money for a trip to a new country, often in appalling conditions. Most illegal migrants now use the services of smugglers, who cash in an estimated $7 billion a year. Over the past few years, thousands of Iraqis and Afghans have reached Australia in gimcrack boats, for fares ranging from $4,000 to $8,000 a person.

Illegal migration, facilitated by smugglers, is creating political tensions. Malaysia is deporting more and more Indonesian illegal workers, though 1m are thought to remain in the country. Since last summer, Australia has been intercepting boats carrying Afghan and Iraqi asylum-seekers, mostly smuggled from Indonesia, and shipping them to Pacific islands to be processed. In September, Australia tightened its border regulations, arguing for the need to crack down on human smuggling and to prevent refugees from jumping the queue to get into Australia. Australia, which received under 12,000 asylum applications in 2001—less than half the number received by Belgium—would rather take refugees who apply offshore rather than those showing up uninvited. The Australian government says it will take in up to 85,000 new migrants this year and an additional 12,000 refugees, but insists on an orderly process.

Critics, however, argue that Australia's tough stance was just a cheap electoral ploy that undermines refugees' rights. According to Human Rights Watch, smuggling is often the only option for asylum-seekers facing violence at home and appalling conditions in transit countries. In addition, the group argues that it is irresponsible to insist that asylum-seekers should stay in Indonesia or Malaysia, which are not signatories to the 1951 Geneva convention and lack proper screening capabilities. In the meantime, smugglers seem to have slowed down their service to Australia. This probably means that more unfortunates are stranded in Indonesia, hoping for their luck to change.

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Jonas Savimbi

Some mourn, more rejoice

Feb 28th 2002 | LUANDA
From The Economist print edition

What chance now is there to bring Angola's civil war to an end?

Get article background

AP

AFTER months of drought, rain fell on Luanda, Angola's capital, last weekend, filling pot-holes and flooding drains. After decades of civil war, Jonas Savimbi, the country's reviled 67-year-old rebel leader, was shot and killed by government troops on February 22nd. To prove it, pictures of his bullet-riddled body were televised and splashed on front pages. The crowds in Luanda's streets sang, danced, tooted car horns and fired bullets and red flares into the air to celebrate. To add to the jubilation, the National Spontaneous Movement, a body that organises “spontaneous” pro-government rallies, organised a march in the slums “for peace”.

With Mr Savimbi removed, Angolans dare to hope that their country's civil war, which has raged on and off since 1961, may at last end. Since the Portuguese colonists left in 1975, Mr Savimbi has proven a resilient foe for the Angolan government. Without Mr Savimbi's vision and willpower, UNITA, the guerrilla army he commanded, may lose its way. Even before he died, the movement was divided, short of money and had lost much of the area it once controlled. Optimists draw a parallel with Sierra Leone, where another diamond-financed rebel army laid down its guns once its charismatic leader, Foday Sankoh, had been grabbed and jailed.

The government says it wants peace. Jose Eduardo dos Santos, the president, met George Bush this week, who urged him to “seize the moment”. Foreign diplomats in Luanda hope he will quickly call a ceasefire and start talking to Antonio Dembo, one of Mr Savimbi's deputies, who now appears to have succeeded him. But Mr dos Santos argues that UNITA must make the first move. He said he was waiting for a sign from the rebels to “build bridges, so that as soon as possible we can achieve a ceasefire.”

UNITA, meanwhile, insists that it is up to the government to make the first move, and to stop hunting down rebel fighters. Mr Dembo is thought to want an amnesty and an election timetable before he will talk of surrender. The group is split into hugely different parts, from the moderates in Luanda to UNITA's scattered units in the field. In the medium term, the moderates hope to build a civilian party based on the support of the highland-dwelling Ovimbundu, Angola's largest ethnic group, who have long felt excluded from government. But, in the short term, it is not clear that Mr Dembo can—or wants to—restrain his men. Already a dozen people were reported killed by rebels this week. Many fear that UNITA could splinter into roving bands of armed bandits.

Will the rebels agree to disarm? Civilians who live in their areas certainly hope so. In the 1980s, UNITA tried to provide health care and education to those it ruled. But when the cold war ended, American support for UNITA ceased. From 1997, its diamond revenues were squeezed by sanctions, and the movement started to run out of money. Peasants were still forced to pay tithes to UNITA, but received nothing in return. The rebels shot them if they did not hand over their crops, and government troops shot them if they did. Refugees from UNITA areas stumble their way into the cities, visibly malnourished and sometimes clad only in tree bark.

Most UNITA fighters, who never volunteered to join the movement, would love to leave it. Mr Savimbi recruited new blood by abducting boys and girls, usually aged between ten and 15. These hapless children were whisked off to military bases and set to work growing food or carrying supplies. Once old enough, the boys became soldiers and the girls became soldiers' wives or appendages. It was a ghastly

life, but many knew no other.

Typical is Eugenio, a 30-year-old man who says he was born into UNITA, worked for UNITA in the bush all his life and has never set foot in an Angolan town. Only fear prevents the rank and file from laying down their guns. UNITA kills deserters, the army kills captives, and most rebels know no way of making a living except by pillage.

The Angolan government is reportedly planning to drop leaflets on UNITA areas, partly to convince people that Mr Savimbi is dead , and partly to persuade the guerrillas to come out of the bush. But few are likely to trust what they read.

Sadly, Mr Savimbi was not the only obstacle to a less miserable Angola. Just as the government's corruption hindered its war effort—bigwigs ordered useless weapons because the sellers offered bigger kickbacks, officers traded guns for diamonds with UNITA—so will corruption temper the government's desire to make peace.

“National security” is a good excuse for not publishing accurate accounts. Last year, according to a leaked IMF study, a third of the state's revenues could not be accounted for. All this helps to explain why the Luanda elite can sip imported wines while their fellow Angolans sleep on the streets, and pick through mounds of rubbish for edible morsels.

Mr dos Santos has one more reason to let the fighting continue. Without Mr Savimbi as bogeyman, he is under pressure, not least from younger members of his own party, to hold long-postponed elections. Continued war would make voting impossible, and allow the ruling party to enjoy the perks of power indefinitely.

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Mugabe's dirty tricks

A doctored video in Zimbabwe

Feb 28th 2002 | HARARE
From The Economist print edition

Plots, sting operations and treason

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AP

I was framed, says Tsvangirai

ON VARIOUS occasions, Morgan Tsvangirai, Zimbabwe's opposition leader, has been stoned, shot at and all-but thrown out of a high window by Robert Mugabe's thugs. But this week it was Mr Tsvangirai who says he was charged with trying to assassinate Mr Mugabe.

This often happens to those who threaten the president's hold on power. Joshua Nkomo, Mr Mugabe's chief rival in the 1980s, was charged with plotting a coup and forced, after several police raids on his home and bullets fired at his car, to flee the country. The Rev Ndabaningi Sithole, the founder of Mr Mugabe's ZANU-PF party, who challenged him for the top job in 1996, was put on trial for allegedly trying to assassinate him with two landmines. He died with the charges still hanging over his head.

The latest plot provides juicy material for the state propaganda machine. Government newspapers fill their pages with it. The state broadcaster shows repeats of a grainy video in which Mr Tsvangirai can be heard saying that once Mr Mugabe has been "eliminated", he can "proceed with the transition to democracy". Mr Tsvangirai claims he has been framed, and that he was talking about the president's elimination through the ballot box.

Viewers are inclined to believe him. Partly, this is because the state broadcaster routinely peddles whoppers. But the main reason for the public's scepticism is that the video, as shown in Zimbabwe, had obviously been doctored. Alert viewers pointed out that the time indicator in the corner of the screen showed that the footage was being shown out of sequence. The station blacked out the timer for subsequent transmissions.

Mr Tsvangirai is probably not a murderer, but he is clearly guilty of carelessness. The video was shot surreptitiously during a meeting in December with a Canadian political consultancy called Dickens and Madson, which Mr Tsvangirai hired to lobby for him in America. If he had bothered to do a background check, he would have discovered that the firm already worked for Mr Mugabe, and that its director, Ari Ben-Menashe, is a former Israeli agent known for spinning colourful yarns. As it was, he says he suspected nothing until his new advisers started talking about putting Mr Mugabe in a coffin and bumping him off. He says he immediately left the room and cancelled the contract. Journalists who have seen the unedited tape say he stayed on, and did not object to Mr Ben-Menashe's talk. A less naive man would not have entered the room, with those people, in the first place.

If tried and convicted, Mr Tsvangirai could, in theory, face the death penalty. Oddly, given the severity of the charge, he was freed without bail and no travel restrictions were imposed on him. It could be that Mr Mugabe, having seen recent opinion polls suggesting that even massive cheating will not win him re-election on March 9th and 10th, and now frustrated by a Supreme Court ruling that strikes down some of his more oppressive electoral laws, is hoping to scare his opponent into fleeing before the poll. But Mr Tsvangirai sturdily vows that he will stay.

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Liberia's mini-war

Charles Taylor's new-found land

Feb 28th 2002 | MONROVIA
From The Economist print edition

Soldiers, rebels and the president too, all keep Liberians frightened

FOR the capital of a country under a state of emergency, the capital Monrovia seems to be remarkably relaxed. The president, Charles Taylor, left the country for a mid-week working trip to Morocco. His defence minister, Daniel Chea, spent the weekend at his home on the south coast, and was seen this week enjoying an after-midnight drink at a lively Monrovia night spot. Checkpoints were conspicuously absent, even on the bridges to the capital.

Mr Taylor announced the state of emergency on February 8th, a day after an apparent rebel attack at Kley Junction, just 35km (22 miles) from the capital. Since 1999, the army has been battling, on and off, with a mixed assortment of rebels from the 1989-96 civil war, who call themselves Liberians United for Reconciliation and Democracy (LURD). But the attack on Kley, and later fighting reported from nearby Bong Mines, set alarm bells ringing because of the closeness to the capital.

The attack on Kley caused mayhem because it is the site of refugee camps for thousands of Sierra Leonean refugees, and also for people fleeing the fighting in the north. Once the government had restored calm, the only casualties were found to be 15 dead among the displaced northerners.

The LURD have no clear political leader but do have several spokesmen, who, from the United States or the Netherlands or even the bush, make unsubstantiated claims of vast troop numbers. Yet few people say they have spotted a rebel. Mr Taylor claims they are backed by Sierra Leone and Guinea, who in their turn are supported by Britain and America. At the same time he accuses the rebels of being part of a shady Muslim conspiracy, which has launched a *jihad* against Liberia's majority Christians and threatened to burn their churches.

Diplomats and local human-rights groups are sceptical. Some even imply that the government might have sponsored the attack in order to manipulate international opinion into lifting the UN sanctions that were imposed on Liberia for backing the rebels in Sierra Leone's civil war.

Mr Taylor argues that the sanctions, which are now up for review, should be lifted since Sierra Leone's war was officially declared over in January. The latest events occurred just ahead of a visit from the International Crisis Group, an independent agency that is compiling a report that may guide the UN's decision.

Some soldiers have not been paid for a year, and reports of looting are frequent. “We call them solbels, soldiers by day, rebels by night,” says a diplomat. Soldiers and rebels often dress alike in a motley assembly of combat gear. Displaced people from Lofa, Bomi or other places with mineral deposits recount the same story. “The soldiers came with their guns, telling us we must run because the rebels were coming. They said we couldn't take anything with us. When we tried to go back, we saw them carrying away all our things.”

This week, in a camp outside Monrovia, people were complaining that the police had come in the night to round up boys and young men, accusing them of being dissidents. On the streets of the capital, former child combatants are also being rounded up. Only about 4,000 of the estimated 15,000 child-soldiers were ever demobilised. They are reluctant to be forced back to the warfront, but have little choice. “They try to force you into trucks in the middle of the night,” says an 18-year-old who was recruited into Mr

Taylor's infamous Small Boy Unit in 1990, after his entire family had been slaughtered.

Human-rights groups and opposition politicians say that, with a presidential election due next year, the emergency is being used as an excuse to carry out a witch-hunt. The editor of a local newspaper was arrested for running a piece on the pros and cons of the emergency. The justice and peace commissioner, Frances Johnson-Morris, was taken in for questioning after she said the emergency was justified in only three of Liberia's 15 counties.

There is little evidence, beyond a few badly put together leaflets, for the government's claim that the rebels have declared a *jihad*. But Mr Taylor has surprised Liberians with his new-found Christian zeal, taking part last weekend in a three-day fast and prayer meeting organised by Rock Church International, a group of American evangelists from Virginia. Dressed all in white, he exhorted the crowd of 50,000: “Take off your shoes! For you are standing on holy ground. This is a new Liberia.” Encouraged by members of his special anti-terrorist unit, scattered around the football stadium with their AK-47s casually aimed at foot level, people readily complied.

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Israel and the Palestinians

Could it be a turning-point?

Feb 28th 2002 | JERUSALEM
From The Economist print edition

The Saudi plan is giving hope to Palestinians, and some Israelis too

THE Palestinians believe that Ariel Sharon is losing his battle to render Yasser Arafat “irrelevant”. On the contrary, they argue, the Palestinian leader has rarely been more relevant. Above all, his nearly three months of internment may have helped to breach the long passivity of Arab leaders and governments. A Saudi proposal, now gathering steam, resurrects the Arab and Palestinian call for land-for-peace, but on an Arab-wide scale, promising collective recognition of Israel.

Last week the split-minded Israeli government decreed that Mr Arafat should be released from his tank-besieged headquarters, but still confined to the city, Ramallah. This infuriated the Palestinian Authority, which had just arrested three Palestinians suspected of involvement in the murder of an Israeli cabinet minister last October, and whose arrest was supposed to be a condition for Mr Arafat's parole.

Mr Arafat had also repeated his call for an end to the violence. Briefly, the violence slackened, to return in full force with his continued incarceration. During his confinement, the Palestinian leader's low stock has risen in the eyes of his own people, of all shades. “By remaining steadfast under siege, Yasser Arafat has become a model to the Palestinians,” says a Hamas leader, Ismail Abu Shanab. Even more important, Arab silence has been broken.

Two weeks ago, Crown Prince Abdullah, Saudi Arabia's de facto ruler, told the *New York Times* that he was thinking of putting a proposal before Arab leaders, when they meet in Beirut at the end of March, that they should establish normal relations with Israel, so long as it withdraws to its pre-1967 borders. Since then, the proposal has taken wing, with several Arab governments, the Europeans and the Americans declaring it important.

It has also been finessed. Saudi and American diplomats have said the proposal is vague enough to allow for Israeli sovereignty over the Western Wall in Jerusalem's Old City, and for minor modifications in the border between Israel and Palestine. There could be land swaps, where Israel's annexation of certain West Bank settlements could be exchanged for equivalent land in Israel. Mr Arafat says he accepts the Saudi initiative “completely”. Other PA officials have said they would like the Arab League to endorse it—on condition that Mr Arafat is allowed out of Ramallah to attend the Beirut summit.

In Israel, Mr Sharon's instinctive antipathy—the prince's plan, after all, is predicated on Israel's near-complete withdrawal—has been swept up this week in a wave of enthusiasm for the initiative, affecting broad swathes of Israeli opinion. A Likud minister urged the prime minister to invite Prince Abdullah to Israel. President Moshe Katsav invited himself to Riyadh (only to be told by the Saudi press that the time for mutual visits would come after peace treaties were signed, not before). Sensing the mood, Mr Sharon informed the EU's foreign-policy chief, Javier Solana, who was on a visit to the region, that he wanted to hear more about the plan. Mr Solana quickly took off for Jeddah.

Although George Bush telephoned Prince Abdullah on February 26th to praise the plan, his spokesman, Ari Fleischer, cautioned that it was in the nature of “a vision...for the end of the day” which was still a long way off. Hard-headed Israelis and Palestinians, still lurching almost hourly from incident to bloody incident—horrors this week include the wounding of three women in labour, two Palestinian and one Israeli, trying to make their separate ways to hospital—wonder how that timespan can somehow be abridged.

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Europe's big three

An Anglo-German liaison

Feb 28th 2002 | BRUSSELS
From The Economist print edition

A recent flirtation between Germany and Britain, with France sulking on the sidelines, is just the start of a long debate on how to reshape Europe

THE pattern was once predictable. Before each important European summit, the leaders of France and Germany would get together and issue a joint statement of intent. Their partnership had driven the process of European integration since the 1950s, leading the way on everything from the common market to the single currency.

But this month, as European leaders prepared to gather in Brussels for a constitutional convention on the EU's future, something odd happened. Gerhard Schröder, Germany's chancellor, released a letter on European reform written jointly with none other than Britain's Tony Blair. It dealt with plans to make EU summits work better. They should, suggested the German-British pair, get less bogged down in minutiae and be less bound by the need for unanimity.

The letter's precise contents were less striking than its very fact. In both France and Germany, it was treated as a bombshell. *Die Welt*, a conservative newspaper, heralded it as a “European revolution” that marked the end of the Franco-German motor as the EU's driving force. *Libération*, a left-leaning French paper, made the same point in different words. “The time when the Franco-German axis made Europe's weather,” it opined, “seems definitively over.” Some French officials seem to have come to the same conclusion. At a recent private dinner in Brussels, Hubert Védrine, the French foreign minister, is said to have pronounced the Franco-German special relationship “dead”.

British and German officials are more restrained. Struggling to suppress a smile, a senior Briton says that “the French have no reason to take the Anglo-German letter badly.” The British, he says, have no illusions about creating an Anglo-German partnership to rival the Franco-German partnership of old. The letter's significance, as the British see it, is that it shows that “the European kaleidoscope has been shaken over the last few years”—and that new diplomatic patterns are emerging. Britain has also been energetically wooing Spain and Italy, seeking understandings over economic and constitutional reform.

On the German side, the impetus for the joint missive has come much more from the chancellor's office than from the foreign office. Indeed, some German diplomats seem discomfited by the implied slight to France. One senior German in Brussels called the letter's timing “unfortunate”, since it appears to pre-empt the opening of the constitutional convention—even though, strictly speaking, the letter is about running the European Council (where heads of government meet) and not about constitutional change.

Still, the fact that Mr Schröder has decided to join Mr Blair in an effort to change the dynamics of European summits reflects the two leaders' shared distaste for the way in which recent summits have descended into unseemly wrangling. At Nice in 2000, France's refusal to accept that Germany's larger population entitled it to greater voting weight led to a late-night argument and an unwieldy and incomprehensible voting system. At the most recent EU summit, in the Brussels suburb of Laeken, yet another undignified row broke out—over which countries should get certain EU agencies. Once again France's determination to fight for its own interests (and more) was at the heart of the problem. The suggestion in the Blair-Schröder letter that European Councils should settle such issues by a majority vote is clearly an attempt to prevent a recurrence.

But does the letter really deserve to make big waves? Mr Blair's closest advisers on Europe have certainly been promoting an Anglo-German entente for some time. The Centre for European Reform, a Blairite think-tank in London, has just published a pamphlet called “Germany and Britain: an Alliance of Necessity”, arguing that “the opportunities for the UK and Germany to co-operate at the European level are perhaps the best in decades.” The authors, Heather Grabbe and Wolfgang Münchau, see a shared British-German interest in pushing ahead with enlarging the EU to embrace the countries of Central Europe and in reforming the European budget and the common agricultural policy—ideas that make the French twitch.

But the limits to an Anglo-German entente became plain at a discussion to launch the pamphlet. Peter Hain, Britain's minister for Europe, and Karl-Otto Pöhl, a former head of Germany's central bank, became enmeshed in a disagreement over whether Europe's single currency should lead to “political union”. The German suggested that it should and would, and even talked of a “single state” in Europe; Mr Hain, who is struggling to persuade his countrymen to join the euro, shied away from any talk of “political union”, which remains political poison in Britain.

The fact remains that in the great constitutional debate that Europe has launched this week Britain and Germany are still miles apart. The Germans will push for a European federation, with nation-states becoming more like the 16 German *Länder* and the institutions in Brussels more like a real European government. The British, meanwhile, will stick to their old aim of keeping the nation-state supreme and the EU's institutions restricted to tightly-defined common tasks. France sounds ambiguous, reflecting old tensions between its desire to build a united Europe and a Gaullist belief in the nation-state. So it may be pivotal in deciding just how ambitious the constitution should be. Seen in that light, the Blair-Schröder letter looks less like the dawn of a new era, more like the beginning of a long game of poker.

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About sponsorship

German geography

Prussian blues

Feb 28th 2002 | BERLIN
From The Economist print edition

Merge two states, under one name? For example...

DESPITE the city-state's worsening finances, politicians in Berlin and in the state of Brandenburg that surrounds it are pressing ahead with plans to merge the two before the end of the decade. Voters rejected the idea in a referendum in 1996, but recent opinion polls suggest that most of the two states' 6m people would now favour a merger. But under what name? Berlin-Brandenburg is the obvious one, but cumbersome and ugly. So why not, well, Prussia?

That is what Alwin Ziel, Brandenburg's social-affairs minister, suggests. After all, Berlin was Prussia's capital. But his seemingly serious idea has sent shock-waves, some of horror, some of amused delight, across Germany.

Never, cry the proposal's outraged opponents. Prussia, officially abolished by the Allies in 1947, was synonymous with everything repellent in German history: militarism, territorial expansion, arrogance and domination, they splutter. And wasn't it Prussia's elite who, by intriguing against the Weimar republic, helped bring Hitler to power in 1933, provoking a descent into a tyranny that drew heavily on Prussian traditions of authoritarianism, obedience thereto and deification of the army? For Germany's neighbours, Prussia meant trouble.

Besides, say critics, it would be absurd as well as historically erroneous to give a little, cash-strapped, unsovereign state the name of a once-mighty kingdom that used to stretch from modern Germany's western borders with the Netherlands to Lithuania in the east.

So what, retort the name's advocates? Other states of today's federal Germany, such as Hesse, have taken the names of former historic states whose boundaries did not coincide with their own. Besides, Prussia was not just nasty. It also stood for noble virtues like honour, duty, progressiveness, efficiency, selflessness and, yes, tolerance; modern Germans would do well to emulate these. “As brand names go, Prussia at least has an international ring,” says Count Carl-Eduard von Bismarck, a descendant of the Prussian “iron chancellor” who united Germany in 1871, “which is more than you can say about Brandenburg.”

True. But whether the brand would sell, in Austria or France, say, let alone Poland, is another matter.

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France, race and immigration

Who gains?

Feb 28th 2002 | PARIS
From The Economist print edition

Continuing our series on election issues, we look at race and immigration

Get article background

EPA

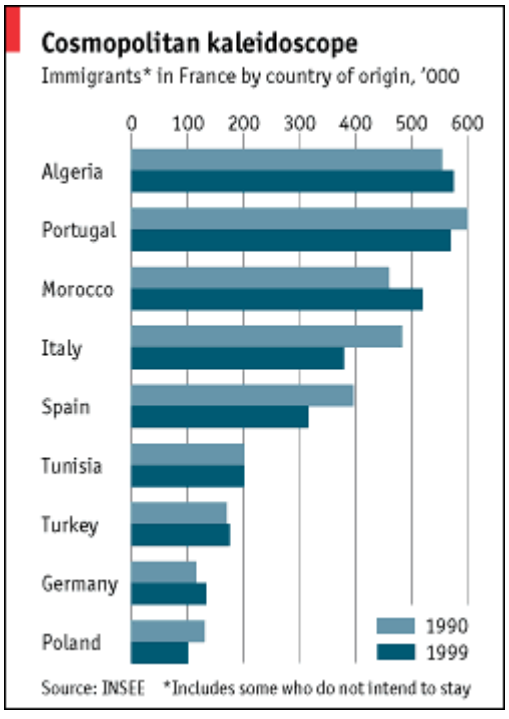
Le Pen wants them out

HERE are some electoral pledges from Jean-Marie Le Pen, founder and presidential candidate of France's National Front. He will “reverse the current of immigration”; establish a “national and European preference” for jobs and housing; “expel immediately” all illegal immigrants; end immigration by spouses or other relations; and “suppress the automatic acquisition of French nationality”. In plain racist, “Darkies, keep out!”

Mr Le Pen is not as important as he thinks. Pollsters suggest he may get only 7% of the vote in the first round of polling for the presidency, on April 21st, and Bruno Mégret, a former colleague, now rival, on the far right may get 1%. Most voters say not just that they disagree with the two far-right candidates' views but think them “dangerous”. Yet their call for a France that is white and Christian cannot be ignored.

France has around 3m people of North African descent. They suffer regular discrimination and occasional graffiti calling for “Death to the Arabs!” Now France's 600,000 Jews are complaining of a resurgence of anti-Semitism, from graffiti to the vandalising of synagogues and Jewish schools. Some of the culprits may be Arabs. But white extremists are keen to add their fuel to the fire (a plausible explanation for an attack this month on a statue of the victimised and Jewish Captain Dreyfus in a posh part of Paris). Meanwhile, say the pollsters, though voters may think the far right dangerous, they also think that France's “traditional values” are not being defended; and 61% told a poll two years ago that there were too many foreigners (to which 21% added, too many Jews).

What “too many” means may be a matter of personal prejudice or of the economy. The far right was more popular in the early and mid-1990s, when unemployment was very high. But France has long been a country of immigration, and is likely to remain so as long as it has lots of jobs—800,000, on some estimates—that the natives consider too difficult, dirty or ill-paid to be worth taking. And for all the far-right talk, the immigrant population is remarkably stable. In the latest census, in 1999, immigrants numbered 4.3m and made up some 7.4% of the population (overseas territories excluded), a proportion that France's national statistics office reckons has been more or less constant for a quarter of a century. Of the immigrants, over a third have taken French citizenship.



The sensitive question is where these people are from. About 1.6m are from other European Union countries. Few white Britons or Germans will have their papers checked by a suspicious policeman or be refused a job interview because of a non-French surname. In contrast, black and brown residents are too often hassled by officials or even beaten up by the *flics*.

There are no official figures for such incidents: in this secular republic it is politically incorrect to count people by their race or

religion. But the 570,000 or so immigrants from Portugal, white and Roman Catholic, are fully assimilated. The brown and Muslim North Africans are not. And failure to assimilate has created near-ghettos of dark skins, poverty and crime. In the Paris area as a whole, one person in six is an immigrant; in the depressed Seine-Saint-Denis area on the capital's northern outskirts, one in five. Add their French-born children, and the proportion of the dark-skinned is a lot higher still.

All this should make it easy to appeal to racism. For good measure, Mr Mégret claims that foreigners make up 60% of France's drug-traffickers and a third of its prison population. Yet the voters are clearly ignoring his appeal for a referendum to end immigration. Why?

One reason may be mere realism. Since France and other European countries tightened their immigration laws a generation ago, almost all non-European immigration is now for the sake of “family reunification”, mainly women coming for marriage. A country that claims it invented human rights could hardly ban this sort of immigration. A second reason, for those who worry about such matters, may be economic. France has the highest birth rate (bar Luxembourg's) in the EU, but it still faces the long-term task of finding enough workers to provide its pensioners with their pensions. On one United Nations estimate, to keep today's worker-pensioner ratio stable till 2050, France would have to import 1.8m people a year.

It would be nice to suppose a third reason, that in the end the French are less racist than they think they are. A year ago a Cambodian-registered ship carrying some 900 Kurds beached itself on France's Mediterranean coast. The reaction of both the public and the government was to provide a camp offering them food and shelter and then to let them slip in unnoticed in their quest for a better life.

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Italian state broadcasting

The Silvio Berlusconi show

Feb 28th 2002 | ROME
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The prime minister can now influence public as well his private television

AP

Will Baldassarre do Berlusconi's bidding?

AFTER the usual squabble, RAI, Italy's public television, has a new board. As usual, its five members were (in theory) named by the speakers of the two houses of parliament, three from the majority parties, two from the opposition. It looks much like earlier boards. Its chairman-to-be is Antonio Baldassarre, a former president of the Constitutional Court. So what's new? One thing: the majority in parliament is these days led by someone, Silvio Berlusconi, who happens to control the other, private half of Italian television.

Is he, or are his pals, bothered by this? Not a bit. They say that RAI has always been part of the spoils system (as it has: in the old days the first channel was Christian Democratic, the second Socialist, the third Communist). Anyway, they add, nice Mr Berlusconi will not take full advantage of the situation. Still, some ungrateful people find it odd that, as he can already grant himself public concessions for his own private television, he can also, in practice, pick the bosses of public television too.

Not that the fault is only or even mainly his. The centre-left, in government between 1996 and 2001, put its own people in charge of RAI, and chose not to change the system—for instance, by privatising RAI. Pollsters had long predicted that Mr Berlusconi would be elected last year. Successive centre-left prime ministers failed to tackle the television issue. Now the left, which at last shows signs of reviving from its electoral rout, is in despair.

Too late. Some in the opposition are convinced that Italy's democracy is in peril. That is overdone. But for sure it is not in great shape. The television saga shows that Mr Berlusconi has decided to shrug off all criticisms, and suggests that he is happy to accumulate as much power and influence as possible. A new draft law on conflicts of interest points the same way.

For years there have been arguments about the need for a law to regulate such conflicts, of which Mr Berlusconi, a tycoon of multiple interests, has no shortage. Now parliament is about to approve a bland, toothless version, whereby the country's antitrust authority will inform parliament when an action by a public official looks like involving a conflict of interest. The antitrust authority will not be able to investigate the action concerned or block it; Parliament will decide what is to be done. Today's legislative chambers, both controlled by solid majorities for Mr Berlusconi, are unlikely to do very much.

One man could call a halt: President Carlo Azeglio Ciampi. Under the constitution he can refuse to sign a new law and simply send it back to parliament. That veto can be used only in exceptional circumstances. But many believe this to be one. However, Mr Ciampi, a former central-bank governor and, in 1993, leader of a centre-left government, has been notably quiet on the issue. If he stays quiet, his silence is going to sound pretty loud.

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Denmark's environment

Howls from greens

Feb 28th 2002 | COPENHAGEN
From The Economist print edition

The appointment of an eco-sceptic may mark a big change in policy

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EPA

Lomborg, the tree-huggers' mugger

HE IS the “sceptical environmentalist” whose claim that the planet is in far healthier shape than most greens maintain has brought him worldwide obloquy from them. Now Bjorn Lomborg has a new post: he is to run Denmark's new Institute for Environmental Assessment, the country's new prime minister, Anders Fogh Rasmussen, a free-marketeer, announced this week. Local greens are spitting with fury.

Mr Lomborg's job will include watching state agencies to ensure that cash for cutting pollution goes where the return is greatest. The best man for the job, said the prime minister. There's more to it than that, say left-wing politicians, pointing out that Mr Lomborg's academic background is not in environmental science. Academic critics have denounced him to Denmark's committee on scientific dishonesty.

The government's aim in setting up the new institute is to help it trim heavy public spending. Greens spot an ideological crusade to roll back a decade of environmental advances under social-democratic rule. The government, elected in November, has already made some big changes. Denmark's ban on beer cans, a pet notion of the previous environment minister, has been lifted. The new minister intends to let local authorities build houses in state forests, previously protected by a blanket ban. Plans for three offshore windpower parks have been dropped. The ministry's $300m annual budget has been cut by a third; one job in ten there will vanish, and one in five at the Environmental Protection Agency.

Critics say Denmark's reputation as a pioneer in environmental protection will be devastated. The withdrawal of some $60m earmarked for cleaning up Eastern Europe could be especially awkward. Denmark will take its turn as the EU's president in the second half of this year, so is due to chair a world environment summit in Johannesburg in September. A hot seat?

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Georgia and Russia

A gorgeous mess

Feb 28th 2002 | TBILISI
From The Economist print edition

Will Russia and the United States squabble over chaotic Georgia?

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AP

Who's shooting whom in the gorge?

EVEN when America and Russia have pinpointed a common foe, cold-war rivalry can still rear its ugly head. That is what poor Georgia is discovering as Americans and Russians squabble over how to deal with some Islamist fighters holed up in a lawless region, near Chechnya, called the Pankisi Gorge.

America's interest in Georgia's wild north surfaced on February 11th when its chargé d'affaires, Philip Remler, said that dozens of fighters from Afghanistan might be hiding in Pankisi—and suggested that they had links with Khattab, a Jordanian-born warrior who has been fighting in Chechnya. This week it emerged that America was considering the dispatch to Georgia of up to 200 elite soldiers to train the republic's own ramshackle forces for action in Pankisi. The Pentagon has already sent Georgia ten helicopters.

Russia, for its part, has been grumbling loudly about “lawlessness” in the gorge for much longer—and has been itching to chase Chechen fighters across the border or even to bomb the place. But instead of hailing America as an overdue convert to the perils of armed Islamism, as it did in Afghanistan, some senior Russians are aghast at the idea of an American military presence so near their border. That would “aggravate an already difficult situation”, fumed Igor Ivanov, the foreign minister.

A difficult place Pankisi certainly is. It is home to a mixture of local Georgians, Georgian-speaking Chechens (known as Kists) who have been there since the 19th century, and about 7,000 refugees from the war in Chechnya—plus a few hundred Chechen fighters from Chechnya and maybe some foreign friends. For two years, the area has been the site of a criminal free-for-all, notorious for drug-trafficking and kidnapping, with the police acting less as law-enforcers than as collaborators. A recent operation to clean things up has descended into farce, with some police themselves being taken hostage. Some Pankisi gangsters have benefited from friends in high Georgian places.

As he struggles to cope with all this, President Edward Shevardnadze is treading a fine line. While nudging the country westwards, he must also humour the Russians. But not too much. Giving them all they want might seal his fate at home. To the dismay of human-rights groups, he has yielded to Russian pressure and agreed that Chechen refugees should be encouraged, at least, to leave the gorge. He has also agreed, through clenched teeth, that Russian peacekeepers could stay on in the breakaway republic of Abkhazia.

Mr Shevardnadze's home base grew even shakier this week with the apparent suicide of General Nugzar Sadzhaya, one of his security chiefs. In a country where everyone accuses everyone else of being in league with Russia, his death set off a host of theories about Russian blackmail and plots. So if and when American boys do land in Georgia, they will be stepping into a mess. A few dozen angry Muslims may not be their only worry.

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Charlemagne

Viktor Orban, an assertive Hungarian

Feb 28th 2002
From The Economist print edition

Can the European Union cope with Central Europe's abrasive new nationalists?

IN THE past few months Hungary's bouncy, footballing, 38-year-old, conservative prime minister has managed to annoy just about everyone—except, perhaps, a majority of his own voters, who next month may conceivably buck the post-communist trend in Central Europe by granting him a rare second term in office on the trot. Among those who do not love Viktor Orban are a clutch of leaders of Hungary's neighbours. He has also been creating jitters in Brussels and elsewhere in the EU with his breezy nationalism. Less surprisingly, he continues to enrage Hungary's Socialist opposition, as well as the liberals and many of Budapest's intelligentsia and press, with his ruthless pragmatism mixed with ideological zeal, which they all decry as inimical to Hungary's unschooled democracy and against the spirit of pluralism and fair play. Across the board, he is often portrayed as clever, tricky, populist—perhaps even a little bit dangerous.

The Romanians have been rattled by Mr Orban's “status law”, which offers special perks to 2.5m ethnic Hungarians in Romania (and to 2.5m in other countries nearby), so conjuring up, for some, the spectre of irredentism: before 1920, Transylvania, now in western Romania, belonged to Hungary. The Slovaks are no less incensed by the same law as it applies to their ethnic Hungarians. And the Czechs are narked because Mr Orban has implied that the decrees whereby ethnic Germans and Hungarians were expelled from Czechoslovakia and had their property taken after the second world war may need revocation. The Czechs' leading conservative, Vaclav Klaus, grimly ponders the prospect of a “Berlin-Vienna-Budapest axis” against Prague.

Mr Orban does not seem to mind much. In any event, he is far from friendless abroad. He has a soul-mate in Edmund Stoiber, the Bavarian conservative bidding to be Germany's chancellor. The Hungarian and Italy's prime minister, Silvio Berlusconi, are pals. Austria's ruling conservatives were delighted by Mr Orban's denunciation of the other EU countries' efforts to ostracise them for taking Jörg Haider's lot into their coalition two years ago. Conservatives across the continent enjoy Mr Orban's keenness to poke ex-communists, however repentant, in the eye.

And at home he has much to purr about. True, it was the (ex-communist) Socialists, eager converts to the market, who put the economy on track between 1994 and 1998. But under Mr Orban it has grown faster, on average by 5% a year; unemployment has dipped from 9% to less than 6%, inflation from 16% to less than 7%. Real wages have shot up by more than 17% in four years, the minimum wage by 72% in real terms since 1999. Hungary, with 10m people, has Central Europe's perkiest economy.

Mr Orban wants his Young Democrats' Alliance (known by its acronym Fidesz) to be an essentially bourgeois party based on Hungary's burgeoning new middle class, supported by small farmers, provincial folk and the church. He disparages “the liberal Budapest elite”. Like Mr Stoiber, he is no fully fledged liberal, in economics or social affairs. He lauds competition in business but likes government, especially his own, to interfere quite a lot. He is more protectionist (“patriotic” is the word his party prefers) than his Socialist rivals, far more so than the struggling Free Democrats, Hungary's purest liberals, who would team up with the Socialists if the left won the election. He is wary of letting foreigners buy land, and gives warning against multinational and foreign domination. He wants Hungary to build up its economic muscle through small and medium-sized family-owned companies and wants to help half a dozen or so Hungarian-owned heavyweights to emerge on the global stage.

But it is Mr Orban's nationalism—a dirty word for many Central Europeans, not so pejorative in France and Britain—that makes so many people, in and beyond Hungary, twitch. Hence that bad feeling over the status law. For some it raises the Central European ghosts of the past century, when borders and peoples were so bloodily messed about. Mr Orban talks merrily of the “spiritual and cultural reunification of the

Hungarian people", including the 5m in Romania, Slovakia and elsewhere in the region. Transylvania, he says, is "part of Hungary's living space in the Carpathian Basin", adding jauntily that once the countries in the area embrace within the EU, then "borders [will] have no importance". The Brussels worriers have been discomfited, too, by Mr Orban's apparent decision to enact the status law before discussing it with his neighbours: an "unEuropean" way of behaving. And they are edgy about Mr Orban's refusal, in the event of a hung parliament, to rule out governing with the support of the anti-Semites of Istvan Csurka's far-right Justice and Life Party. Many of Hungary's 100,000 or so Jews, the largest such community in Central Europe, sound nervous.

Nationalism isn't always malevolent

Worries over the status law, which the Socialists voted for too, may, however, be overblown. Mr Orban felt obliged to calm Romania by offering all its people the three-month work permits that their ethnic-Hungarian compatriots can have in Hungary. Besides, most EU countries give perks (starting with Germany's acceptance of ethnic-German immigrants) on the basis of blood. The Slovaks have their own status law. Moreover, Hungary was unique in Central Europe in losing two-thirds of its land and one-third of its people after that endlessly reviled Treaty of Trianon of 1920. Why should it not seek, if not to redraw borders, at least to reconnect its brethren, squashed as they have been for centuries between German-speakers and Slavs?

Mr Orban may be an awkward neighbour and a rough opponent. He may prove a tricky European. But he is an able leader of a new breed of Central Europeans for whom joining the EU is mainly a matter of self-interest; "ever closer union" in politics is not their ideal. Brussels bigwigs are rightly warier of telling such people what to do. They may even suck their teeth and shut their eyes if horrid Mr Csurka helps keep Mr Orban in power.

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Government

Byers beware

Feb 28th 2002
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This week's row over the transport minister and the truth says some unpleasant things about the government

THE most damaging charge against Tony Blair's government is that it is so obsessed with spin that it hardly knows what the truth is. Recent events have lent weight to the accusation.

A row between the transport secretary, Stephen Byers, and his chief information officer, Martin Sixsmith, has damaged the minister's, and the government's, credibility. A well-orchestrated show of support for Mr Byers in Parliament has enabled him to survive for now, but informed sources predict that he will be sacked at the next reshuffle. “He is a liability,” says a Whitehall insider.

Mr Byers's problems began two weeks ago when press reports claimed that his chief information officer had intervened to prevent his special adviser, Jo Moore, from slipping out bad news on the day of Princess Margaret's funeral. Ms Moore had previously been exposed as the author of an e-mail written on September 11th saying that it would be a good day “to bury” bad news. She survived that episode only thanks to Mr Byers's support. This latest incident threatened to sink them both.

Number 10 is keen on instant rebuttal. It immediately denounced the e-mail as “a fabrication”—a line encouraged by Mr Byers's private office. But it soon emerged, thanks to leaks from within the department, that Mr Sixsmith had indeed written a warning e-mail, albeit more temperate in tone, which had been copied to Ms Moore, saying that it would be unwise to try to bury news on the day of the princess's funeral.

Within 24 hours, Mr Byers announced that both Ms Moore and Mr Sixsmith had offered their resignations. It was the first of many inexactitudes. Mr Sixsmith had not agreed to resign and was bitterly aggrieved at being hounded out of his job. A former Moscow correspondent for the BBC, he took the precaution of making detailed shorthand notes of his conversations with the department's permanent secretary, Sir Richard Mottram. Sir Richard subsequently published his own account of what took place. On one point, at least, the two men agree. The resignation announcement was premature.

With the minister apparently at war with his civil servants, the story soon spun out of control. Sir Richard summed up the situation colourfully when he told a senior colleague: “We're all fucked. I'm fucked. You're fucked. The whole department is fucked. It's been the biggest cock-up ever and we are all completely fucked.”

Mr Byers believes he is being undermined by a small group of officials within his department. But he has a reputation as a serial evader of the truth. He has already had to apologise to MPs for having given a misleading impression on television that he had played no part in blocking a compromise deal under which Mr Sixsmith would be transferred to another post in Whitehall. But he has not yet been frank about his role in the sacking of his press secretary. Asked in a television interview whether he had insisted that if Ms Moore was to go, so must Mr Sixsmith, Mr Byers claimed that this had not been his decision but that of the permanent secretary, Sir Richard Mottram. “Personnel matters are dealt with not by me but by the permanent secretary,” he claimed.

Sir Richard, however, makes it plain that Mr Byers was instrumental in deciding Mr Sixsmith's fate. The press secretary's notes of his meeting on February 18th quotes the permanent secretary as saying of the minister: “He's invested so much public face in this that his credibility is very much on the line. He's also made a firm promise to Jo [Moore] that if she stepped down, he would get your head to roll as well.” Later Sir Richard noted: “Byers is very clever—or very cunning, at least. As you know he never takes responsibility for difficult decisions. So the way he arranged the bargain over Jo stepping down in turn for you going was to get me to offer him a series of options. He then refused to say which option he himself preferred. So technically, he will be able to say: ‘It wasn't me who decided that Martin [Sixsmith] had to go.'”

The problem with this dodging and weaving is that the minister has, as the police say, previous form. There are several instances in which his account of events has been subsequently disputed—by the head of BMW, Joachim Milberg, for instance, and by the chairman of Railtrack, John Robinson. Mr Byers was also directly responsible for the removal of Mr Sixsmith's predecessor, Alun Evans. Mr Evans had refused to allow one of his subordinates to take part in a campaign to smear Robert Kiley, transport adviser to London's mayor, Ken Livingstone. Despite appealing to both his permanent secretary and the cabinet secretary, Mr Evans was forced to resign and is now exiled in a Whitehall backwater as the secretary to an agriculture inquiry.

The Blair laager

Ministers are entitled to insist that the senior officials with whom they work are people they get on with personally. But Labour has strained this relationship of trust by failing to observe the boundaries of what a civil servant can honourably be asked to do. The politicisation of the information service—18 out of the 20 heads of information were removed in the first two years of the Blair administration—has accelerated this process.

This tension is not new. There is an inevitable strain in the relationship between politicians and civil servants. Margaret Thatcher never hid her impatience with the mandarins. Yet the battle to create New Labour—fought by a few modernisers against the massed ranks of Old Labour—has created a laager mentality among Tony Blair's closest supporters. It helped in taking over the party, but it hinders the running of government.

Within the transport ministry, it has made life peculiarly difficult. Senior civil servants complain that they do not see Mr Byers from one month to the next. He prefers to surround himself with a small coterie of political advisers and friends, and has thus encouraged an atmosphere of distrust. Peter Kemp, a former permanent secretary at the Cabinet Office, wrote last week that Mr Byers was best described as “a minister from hell”, adding that he was known around Whitehall as “Fuckwit”.

The Department of Transport, Local Government and the Regions is a sprawling mess of ill-matched responsibilities. Mr Byers has said that when Tony Blair offered him the job, the first two words that came into his mind were “poison” and “chalice”. But he has compounded his problems through his willingness to bend the truth and his readiness to blame civil servants for his troubles.

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Suicide

Down with depression

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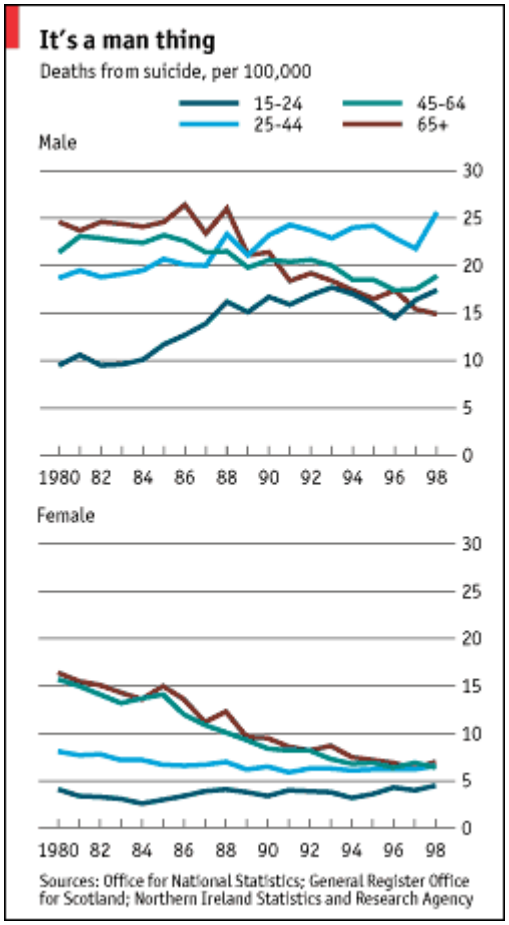
From The Economist print edition

Prozac nation? Maybe. Something is pushing suicide rates down



MODERN life, it is generally believed, is cruel to the old. They are abandoned by their families, isolated by society and uncared-for by the state. Curious, then, that by one sharp indicator of misery they seem better off than they used to be. Suicide among the old—especially among old women—has plummetted (see chart).

Twenty years ago, the old were much more likely to commit suicide than the young. Since then, the gap has closed—among women because the suicide rate in older groups has fallen so sharply, and among men because the rate for the young has rocketed whilst that for the old has fallen off. The decline in the suicide rate among other groups means that, on average, people are a lot less likely to kill themselves than they were 20 years ago.

Why has this happened? Psychiatrists speculate that it has something to do with the way that society has changed, and something to do with the way medicine has changed.

"Psychiatric autopsies"—reports on recent suicides researched through talking to their nearest and dearest—predictably reveal that many of those who take their own lives have in common a sense of being stuck in an awful situation with no way out. As female employment has risen and divorce become acceptable, there are probably fewer people who feel like that among middle-aged and older women, the groups that have seen the sharpest falls in suicide rates. "I think one of the main reasons why the female suicide rate has dropped is that women have more freedom and power than they did in the past," says Peter Sudbury, a consultant psychiatrist at Berkshire Healthcare NHS Trust.

Some people speculate that higher living standards are also responsible. Poor people are likelier to kill themselves than richer ones; and since the old are relatively poor, rising standards of living tend to pull more of them out of poverty.

But Mr Sudbury thinks that changes in medicine have helped, too: "we are getting better at treating depression." The drugs for treating depression have improved, and the companies that produce the drugs have spent money to help doctors diagnose it. Mr Sudbury points to a study carried out on a Swedish island which found that, when GPs were given special training in diagnosing depression, the suicide rate dropped by two-thirds. When the training was terminated, it rose again.

But why have these improvements not helped young men? Hard to say, but male depression seems harder to treat than female depression. Men are less willing to talk about depression, and their misery expresses itself in ways that exacerbate their problems, such as drinking and drug-taking. And maybe, too, women's gains in power and freedom have come at a collateral cost to the men; though, if that were an important contributory factor, it should push up the rate for older men too.

Further reducing the suicide rate is one of the government's many targets, so NHS trusts are thinking harder about suicide than they used to—redesigning wards for the mentally ill, for instance, so that there

is nowhere to hang yourself. The government has also launched a Campaign Against Living Miserably, to get depressed young men to seek help, and persuade them that Things, in the words of the New Labour anthem, Can Only Get Better.

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Banning hunting

The illiberal in pursuit of the irrelevant

Feb 28th 2002 | EDINBURGH
From The Economist print edition

Murdo MacLeod

The government has announced a new season for the traditional sport of arguing over a ban on foxhunting

Get article background

ON FEBRUARY 26th, when the press and the opposition were baying for the blood of Stephen Byers, the transport secretary, he faced the House of Commons. Hard work by government whips to persuade the party's many grumpy left-wingers to support the Blairite quarry paid off. The audible support of MPs was regarded as crucial in saving Mr Byers's political life, at least temporarily.

Which was why the government's announcement two days later that there would be a vote in the Commons next month on banning hunting was received with some cynicism. Foxes are, curiously, among the issues that preoccupy left-wing MPs, so the announcement was seen as a reward for loyalty. A life for a life: a minister for a fox.

There is a little doubt that the Labour-dominated Commons will support a ban. In 1997, a Liberal Democrat MP's bill to ban hunting was passed by 411-151. The bill was eventually withdrawn because of blocking tactics by hunt supporters. Then a government bill ran into trouble in the House of Lords and eventually fell because the 2001 election intervened.

The oddities of parliamentary procedure mean that the government could dig that bill up again and simply bulldoze it through the Lords. But the government has decided the problems thrown up by the Scottish Parliament's ban on fox-hunting, which was passed in February, mean that a fresh bill is needed. This will have to wind its way through the Commons and the Lords, where it may again run into trouble, even though the hereditary peers (the most solidly pro-hunting part of the legislature) are now a minority.

Whatever its contents, the bill will cause fury. In Scotland, noisy bands of hunt supporters protesting against the law, clad in orange boiler suits, styled themselves “Rural Rebels”. They staged an array of stunts to annoy urban politicians who, they decided, had taken it upon themselves to interfere in the countryside and tell people what they should do with their lives. Activities included snarling up motorways with convoys of slow-moving four-wheel-drive vehicles and hurling orange smoke bombs during a demonstration outside the Scottish first minister's official residence.

It was all in vain. But the rebels have since hooted that the Scottish ban is also in vain. They maintain that loopholes, such as one permitting the pursuit of foxes with muzzled hounds, mean that hunting is still permissible—although such a hunt has yet to take place. Jumping through loopholes is part of the tradition of political struggles to stop cruel sports. Laws to ban badger-hunting were first passed in 1973. Three further laws were passed before badgers were fully protected in 1991.

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Health

Stockholm syndrome

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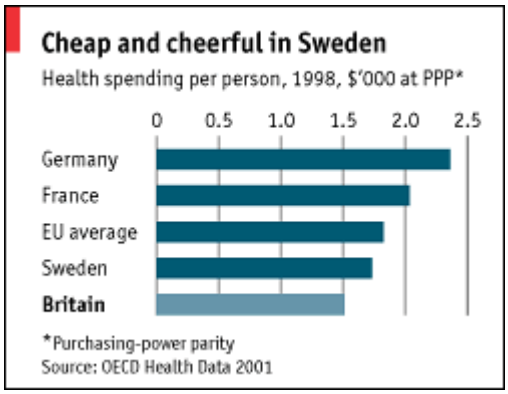
From The Economist print edition

For tips on reforming the health service, Tony Blair should visit Sweden

POOR Tony Blair is mightily peeved by the awkward hostility of Britain's unions to his spectral plans for reforming the public services. So he would enjoy meeting Kevin Thompson, a British union official contentedly working in a privatised hospital. The snag is that Mr Thompson's hospital is in Stockholm.

When British policy-makers cast around for clues on how to improve the National Health Service (NHS), they generally look to France and its neighbours, with their expensive systems of social insurance. But Scandinavia offers some useful lessons in achieving the twin grails of patient choice and virtuous competition in a system funded, like the NHS, through taxation (albeit more of it). Sweden, where per capita health spending is higher than Britain but lower than France or Germany (see chart), is especially instructive—as the Conservatives discovered when they passed through during their ongoing policy-making odyssey.



On most important measures, the Swedes enjoy just about the best health in the world. Nevertheless, Swedish health-care has experienced many of the same problems as has the NHS—foremost among them being the pain of long waiting lists for treatment, and counter-productive attempts to reduce them. One important difference, though, is that responsibility for Swedish health-care is devolved to the country's 21 county councils. Most care is still provided in public hospitals; but Stockholm has experimented with just the sort of pluralistic remedies that Mr Blair and Alan Milburn, the health secretary, plan for the NHS.

Since the early 1990s, hospitals in Stockholm have essentially been paid for the treatments they actually do, rather than according to an abstract calculation, which has improved their productivity and responsiveness to patients. A handful of general hospitals have been turned into companies, owned by the council but essentially independent—the sort of liberation from political interference that Mr Milburn recently promised the best NHS hospitals. The result, according to Carola Lemne, managing director of Stockholm's Danderyd hospital, has been a greater sense of autonomy among staff, and better management. “Politicians are not professional managers,” Ms Lemne says dryly.

Then in December 1999, Capio, a Swedish company that runs some clinics in Britain, took over the management of Stockholm's St Goran's hospital. Ake Strandberg, the hospital's chief executive, says it offers cheaper care than its competitors, and is the only hospital in Sweden to publish detailed quality indicators. Mr Strandberg denies accusations that St Goran's skims off the most profitable patients and neglects others—which Labour's critics say will happen if NHS hospitals are managed privately: “if somebody can tell me which patients are the most profitable,” says Mr Strandberg, “I would be interested to hear.” Mr Thompson, a nurse who sits on the hospital's board, says that fears about working conditions and patient care under a private employer have not been realised (though he adds that not every private provider is quite so union-friendly).

The free-market Moderates who, with their coalition partners, run Stockholm's council, regard all this as a triumph, citing what they claim are shorter waiting times for treatment than other regions as their vindication. Not everyone agrees: Sweden's Social Democratic government has passed a law specifically to prevent Stockholm from privatising any more emergency hospitals, as indeed the Moderates would like to. The merits of the Stockholm reforms will be a key issue in Sweden's general election campaign in the autumn: the Social Democrats will accuse the Moderates (as Britain's Labour habitually accuses the

Conservatives) of intending to dismantle public health-care. Also as in Britain, both sides say the other is motivated by (perish the thought) “ideology”.

Some of Sweden's innovations are questionable: there is some evidence that its various charges for seeing a doctor inhibit the poor from seeking needed care. And there are problems with the Stockholm model. As Goran Sjonell, Sweden's most distinguished family doctor, says, a system in which a third party—the council—pays hospitals per treatment risks stimulating over-production and raising costs, which is why caps have been imposed on hospital revenues.

Then again, the NHS has, in the form of its powerful GPs, a much better way of controlling spending than does Stockholm. So the Stockholm model might work better in Britain.

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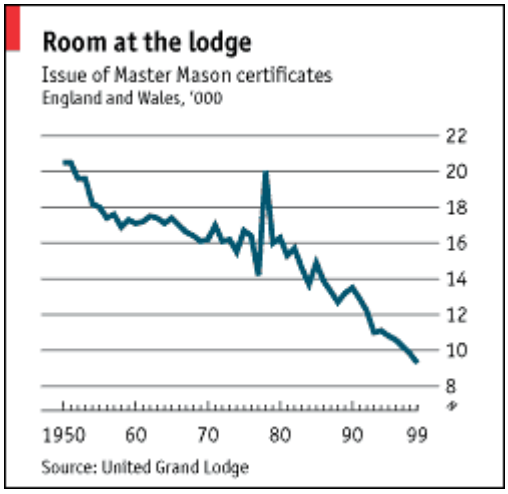
Freemasonry

Fewer on the square

Feb 28th 2002
From The Economist print edition

British freemasonry used to be feared for its power. Now it fears for its life



FOR centuries, a new freemason swore not to reveal the society's secrets on pain of having his throat cut and his tongue torn out and buried in the sand at low water. Now British freemasonry is launching a public-relations campaign to try to prove that it has nothing to hide.

Freemasons are worried. About 10,000 men in England and Wales become masons each year, but with an average age of nearly 60 among the nation's 475,000 freemasons, the brotherhood is in decline.

Although some freemasons claim that the society goes back as far as ancient Egypt, a more conventional view dates its origins to medieval cathedral-builders who carved in soft “freestone”. Known by outsiders for its peculiar clothes and handshakes, the brotherhood also has a coherent, egalitarian, set of beliefs. Men are required to believe in a “supreme being” of any creed, and to treat each other as equals, irrespective of race or class.

Around the world, freemasonry has been seen as a subversive cult, and has aroused the suspicion of rulers. Many of the men who supported the revolutions in France and America were freemasons, and the group became linked with rebellion. But in Britain, freemasons have worked hard to stay on the right side of authority, enlisting members of the aristocracy and royal family as protectors.

Arguably, they have been too successful at cultivating links with power. Since a bestselling book published in 1983 argued that freemasons exert a malign influence in public life, people have tried to force freemasons to declare themselves. So far, they have failed. In 1999, a parliamentary inquiry concluded that it could not prove that masons exert improper influence on public life.

The criminal justice system and some local councils ask that new recruits say if they are freemasons, but the drive to force those already in public life to reveal themselves has lost momentum—probably because the society has too. Chris Mullin, the Labour MP who led the parliamentary inquiry, believes that these days being a freemason is becoming a hindrance in public life rather than a help. One sign of the times is that the lodge of medical freemasons that met for years at London's St Thomas's Hospital has recently been told to convene elsewhere.

Hence the public-relations campaign. United Grand Lodge, the main governing body, has already ditched some of its more controversial rituals, to the dismay of many brethren. Now it has hired a public relations firm. In April a magazine called *Masonic Quarterly* will be launched, and in June freemasons will jog through London for charity, wearing T-shirts emblazoned “I am a freemason.” United Grand Lodge wants to draw attention to freemasons' donations to non-masonic charities.

United Grand Lodge will find it difficult to reverse the fall in membership. The average initiate is in his late 40s, according to John Hamill, the lodge's head of communications, and, as recruitment falls and old members die off, the number of freemasons in Britain is shrinking. Young people work longer hours and modern women, it seems, resent their partners spending their evenings at men-only clubs. The PR campaign may, of course, succeed in making the whole thing sound less spooky; but if the air of conspiracy surrounding freemasonry dissipates, the society may find it has lost its main attraction.

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Company pensions

End of the party

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From The Economist print edition

How bad for employees is the decline in final-salary pensions?

BRITAIN has long taken pride in the size and coverage of its funded private occupational pension schemes. With over £700 billion of assets, they compensate for meagre state pensions. In the past twenty years, they have contributed to a big improvement in pensioners' living standards. But in recent weeks, a sense of foreboding has emerged about their future, especially for younger workers, as more and more companies decide to change the terms on which they will offer pensions.

Up till now, most pension schemes have offered “defined benefits” (DB). Under a DB scheme, pensions are generally linked to workers' final salaries, replacing a proportion of that income according to the number of years worked with the company. Under this formula, people who work for as long as 40 years for a company can expect to get two-thirds of their final salary. Increasingly, however, firms are favouring “defined contribution” schemes. Under a DC plan, workers have to build up their own pot of money which they must then eventually turn into a pension through the annuity market.

Last year, a tenth of final-salary pension schemes surveyed by the National Association of Pension Funds (NAPF) closed them to new employees. Such closures, including major employers like British Telecom, have not affected existing members. However, in recent weeks, Iceland, a frozen-food retailer, and Ernst & Young, an accountancy firm, have announced plans to close their DB schemes to existing members.

The shift from DB to DC schemes has caused alarm and recrimination in equal measure. Frank Field, the former Labour pensions minister, calls it a “mega-tragedy”. Ken Jackson, general secretary of Amicus, Britain's largest private-sector union, has pointed the finger at Gordon Brown's raid on pension funds in his first budget, saying that it “plunged schemes into a financial nightmare”. Chris Daykin, the government's actuary, has spoken about the “self-destruction” of DB pension schemes because of excessive complexity and changes to accounting rules.

A new accounting standard, called FRS17, is undoubtedly blamed by many pension-fund managers. “Our members are telling us that FRS17 is the prime cause why they are changing their arrangements,” says David Astley, director of benefits at the NAPF. In the past, companies have been able to smooth the effect of changing market conditions on their pension-fund assets and liabilities, so that they do not feed through immediately onto their books. When FRS17 comes into full effect next year, companies must disclose and recognise the full impact of gains and losses in their pension fund.

However, the real problem is not the messenger but the message. Britain's pension funds have punted heavily on equities for many years. That strategy has paid off handsomely, but it does expose them to greater risk in the short term than more cautious strategies which put more money into less volatile bonds. The bear stockmarket of the past two years has hit pension funds hard and brought home to companies the investment risk that they are shouldering. At the same time they have become more aware of the risk of rising life expectancy at older ages, which increases the cost of a defined-benefit promise.

With the tide flowing against final-salary pensions, the trend towards DC schemes appears unstoppable. This development has aroused concern. Because the company fund undertakes the investment and the company underwrites the promise, DB schemes are generally thought to offer superior benefits to DC ones with much less risk to employees.

So they do—if you work for one company all your life and your earnings rise towards the end of your career. But most people change jobs quite frequently. Someone who changes jobs six times in their life loses 25-30% of the full-service benefits of a final-salary scheme in Britain, calculates David Blake, director of the Pensions Institute at London University. Yet people can now expect to change jobs more than eight times in their working life, says Simon Burgess, an economist at Bristol University. Individuals whose wages peak early also lose out under DB plans.

Employees with DC plans do not face these risks. Nor will they find their employer changing the terms of their pension arrangements midway through their career. On the other hand, they have to shoulder investment risk and must pay the bill for rising longevity when they come to purchase an annuity.

The fact of the matter is that both DB and DC plans are risky, but in different ways. The real problem with the switch towards DC plans is the level of contributions into them. According to the most recent survey by the NAPF, combined contributions by employers and employees in the private sector into DC plans were 11.6% of eligible earnings compared with 14% into DB schemes.

Yet contribution rates need to rise for both DB and DC plans because of rising longevity and lower expected investment returns. For a man to ensure a two-thirds final-salary pension at the age of 65, contributions into a DC stakeholder plan now need to be 24% of earnings from the age of 25, calculates Deborah Cooper of William M. Mercer, an actuarial consultancy. Arguably, this is an unrealistic objective, since very few people in DB plans achieve a two-thirds final-salary pension. But many actuaries would advise that contribution rates of at least 15% are now necessary to secure a decent retirement income.

To achieve this, more effective savings incentives for lower-income workers are essential, argues Ros Altmann, a pension-fund specialist. DC schemes should also offer better-designed investment choices. More can be done to improve the annuities market, she argues. The way forward is not to lament the demise of final-salary schemes but to make DC plans work.

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Bagehot

No, minister

Feb 28th 2002
From The Economist print edition

Sir Humphrey meets "The West Wing"

GENERATIONS of television audiences, reared on the BBC sitcom, "Yes, Minister", think they understand how Britain works. Politicians are elected. Some are made into ministers. Some of the ministers are put in charge of government departments. But the departments are actually run by career civil servants, the urbane Sir Humphreys, who in the gentlest possible way prevent over-excited politicians from doing too much damage. Governments come and go, but civil servants are forever, and the good old machine runs on as before.

If this was a caricature when Margaret Thatcher won power, it is even less accurate now. Mrs Thatcher was determined to change Britain. She was not going to let chinless wonders in pinstripes, who had not even been elected, stop her. As for Tony Blair, his party won power after having none for 18 years. It assumed that civil servants who had served Conservatives civilly for so long would be conservative themselves. In order to control the machine, he therefore multiplied the number of "special advisers" working in Whitehall. A breakdown in the relationship between politicians, civil servants and special advisers caused the calamity that befell Stephen Byers's "dysfunctional" (Downing Street's word) transport department this week.

Does what happened to Mr Byers's fief signal a wider failure of the special-adviser system? According to the textbooks, there are two kinds of special adviser. One is an expert, appointed for knowing something special. But most are political: speechwriters, spin doctors and general go-betweens who are usually appointed for knowing someone special—someone, that is, who has become a minister. Though he did not invent the breed, Mr Blair has bred more of them than any previous prime minister. Mrs Thatcher started with about half a dozen; John Major ended with about 35. Under Mr Blair, the number has more or less doubled. In the 1970s, only senior ministers had a special adviser. Under Mr Blair, even junior ministers can have several.

Special advisers are not necessarily heinous. Andrew Tyrie, a thoughtful Conservative backbencher, thinks quite well of them. He would do—having, like a growing number of MPs, previously been one himself. But he accepts that their status is contradictory. On the one hand, they are civil servants, paid by taxpayers. On the other, they are relieved of the duty of impartiality that has been at the core of Britain's civil service since the mid-19th century. As the advisers became more numerous in the 1980s, the mandarins and special advisers had therefore to exercise a good deal of restraint to make the system work. On the whole, the civil service was eager to co-operate. If a special adviser strengthened a minister, the department grew stronger too. If an adviser was too political, the mandarins could usually freeze that adviser out. But much depended on there being a close understanding between the minister, the permanent secretary and the adviser (the very triangle that turned vicious under Mr Byers); and on the number of advisers being small.

Under Mr Blair, it is not only the number of advisers that has grown. So has the scope of the jobs they do. Many civil servants will tell you that two of the most powerful members of the present government are neither elected politicians nor civil servants. They are Jonathan Powell, the prime minister's chief of staff, and Alastair Campbell, his director of communications and strategy. Both are special advisers, but with contracts allowing them to give orders to civil servants. At the Treasury, Ed Balls, a former journalist who has become the chancellor of the exchequer's special adviser, has a more traditional contract. Nonetheless, it is accepted by everyone that he occupies a commanding position, arguably more powerful than that of the permanent secretary himself. Mr Balls has many personal virtues, but to many Treasury old-timers he is an unelected upstart. Though not entitled on paper to boss about the civil servants, he does so anyway. That has to be a bad thing, doesn't it?

Mandarins and mandates

Well, maybe. “Yes, Minister” was a caricature. The complication is that caricatures do not work unless they bear at least some resemblance to the truth. And the truth is that successive British governments, especially those that take office intending large changes, have come to believe that their efforts have been frustrated by the system. The prime minister takes the bridge and pulls a lever. From below comes a great grinding of gears—and nothing much happens. If the civil service will not or cannot deliver the policies the elected politicians have decreed, why not insert a layer of political appointees to jolly it along? This can hardly be portrayed as a violation of some universal democratic principle. France does it, after all. And in the United States an incoming president appoints thousands of senior civil servants, who expect to leave again when his administration is voted out. By comparison, even after Mr Blair, Britain's experiment with political appointees is a tentative affair.

Which, of course, is half the trouble. America has one sort of civil service. Britain has another. Many people in Britain think that the American system has advantages. It might be worth copying, if not for the danger that this would remove one of the few remaining constraints on an executive branch to which Britain's constitution, with no proper separation of powers, already gives too much power. But instead of deciding openly to adopt the American system, Mr Blair has tried to superimpose elements of it on top of a civil-service machine that is still striving manfully to carry on in the time-honoured way, adhering to rules that embody the time-honoured values of impartiality. The predictable result is that Sir Humphrey is confused, and a little bit paranoid. He might still co-operate if he were treated with a modicum of tact and sensitivity. But as the Byers affair shows, not all Labour ministers, still less their special advisers, possess such qualities in abundance.

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A new order

Feb 28th 2002
From The Economist print edition

Corbis

Thailand's 16th constitution provides the perfect guide to stability and prosperity, says Edward McBride. Now all the country has to do is live up to it

AS MURDER investigations go, the killing of Suvichai Rodwimud seemed quite straightforward. The unfortunate police sergeant-major was shot dead in full view of dozens of revellers at Club Twenty, a Bangkok nightspot. Although the bar is normally dimly lit, the manager, according to most accounts, had turned up the lights just before the shooting. That gave patrons a chance to see Duangchalerm Yubamrung, an officer in the Thai military supreme command, having a furious row with Mr Suvichai. Allegedly he then drew a gun and shot him in the head. The police say they have plenty of witnesses.

Many Thais find this easy enough to believe. Mr Duangchalerm and his two brothers are notorious rowdies who have been accused of involvement in nine previous violent incidents in the past four years. Yet most Thais also doubt that justice will be done. In a recent poll, only 13% thought the courts would handle the case fairly. A full 62% expected political interference. To this day, the rich and well-connected, Thais seem to believe, can literally get away with murder.

Mr Duangchalerm's father, Chalerm Yubamrung, is the political boss of Thonburi, a suburb of Bangkok, and a former police officer. At the time of the shooting, he was deputy leader of one of the parties in the present coalition government. His three sons all landed plum jobs, despite their reputation: Mr Duangchalerm, for example, had worked in the defence minister's office. Several court cases against the trio have come to nothing. No wonder so many Thais fear that this case, too, will vanish into thin air.

Mr Duangchalerm did, after all, manage to flee the scene, despite the presence of many policemen; indeed, one officer was charged with accompanying him off the premises. Immediately after the murder, the local press carried reports that both the armed forces and Mr Chalerm knew where the suspect was, but a few days later everyone suddenly denied any knowledge of his whereabouts. Military officials loudly questioned the civilian authorities' right to arrest or try Mr Duangchalerm.

Mr Chalerm announced that a member of his son's entourage, who had also vanished, was the real killer, and produced witnesses to dispute the earlier claim that the lights at the murder scene had been turned up. He also says he has “misplaced” two guns he owns, of the same calibre as the murder weapon. Meanwhile, reports emerged that the accused had slipped across the border to Cambodia. His family, at any rate, suddenly took to visiting Cambodia at weekends. The crime took place at the end of October, yet four months later, as this survey went to press, Mr Duangchalerm remained at large.

Ordinary Thais' anger at the handling of the case is spilling out in chat shows, letters pages and online discussion forums. Several senators have demanded an inquiry. Angry citizens handed out stickers reading “Fight for Suvichai ” in central Bangkok. A public appeal quickly netted 1.15m baht on behalf of the dead policeman's widow and child. One group of protesters even held a public ceremony to curse the

Yubamrung family.

Here we go again

One reason people are so upset is that Thailand is supposed to have put this sort of thing behind it. From the 1950s until a few years ago, an unaccountable and unscrupulous elite of politicians, soldiers and bureaucrats had run the country for their own benefit. They got away with it because for the better part of 50 years the economy was growing at a blistering average of over 7% a year. But with that economic growth came an expanding middle class that began to resent the rickety coalitions, the coups and the corruption. In 1992, a military strongman's attempt to suppress student demonstrations and install himself as prime minister prompted a vigorous campaign for political reform. A new constitution was drafted in 1997, just as Thailand's economy collapsed. The baht lost half its value, half the country's loans turned sour and output plummeted.

In the wake of this disaster, politicians did not dare resist the adoption of the new constitution, even though it was designed to curb their excesses. It incorporated a battery of checks and balances to prevent those in power from abusing it. It also gave ordinary people an arsenal of new provisions to defend their rights and enforce the rule of law.

At first glance, the Duangchalerm case raises doubts about how far Thailand has travelled along the road to fair and transparent governance. Admirable as the new constitution is on paper (in this instance, a special aspen-wood parchment), it seems to make little difference in practice. Yet optimists see progress of a sort. Even five or ten years ago, they think, this kind of incident would have been hushed up; now embarrassed politicians have sworn to see justice done. According to Phongthep Thepkanjana, the minister of justice, the case will be a test of the reforms instigated by the new constitution. Naturally, he wants the system to acquit itself well.

There are other heartening signs. The high command, anxious to distance itself from the furore, quickly sacked Mr Duangchalerm for absenteeism, and conceded that the rules granting soldiers special privileges on arrest needed updating. An earlier investigation into claims that the Yubamrung brothers had dodged the draft was reopened. Mr Chalerm's wife resigned from her job as a judge. Her husband surrendered his party posts. He retains his seat in parliament, but the pundits agree that his political career is over. The policeman accused of helping Mr Duangchalerm escape was suspended, and the suspect's two brothers are being put on trial for impeding his arrest at the scene of the crime. Prosecutors have launched a case against Mr Duangchalerm in absentia, and are putting witnesses' testimony on the record before anybody has second thoughts.

However this particular case turns out, reform-minded Thais obviously have a clear idea of how such matters should be dealt with. They argue that without the firm, efficient and impartial application of the law, Thailand will struggle to regain its earlier prosperity. Politicians will find ways to evade the new constitution's strictures; crooked bankers and businessmen will cook the books and resist restructuring; pressing problems, such as the spread of AIDS and a surge in drug abuse, will be neglected; and the frustrated citizens, aware of their rights but unable to enforce them, will take to the streets.

Such are the risks; but they are not unavoidable. In fact, Thailand's 16th constitution offers a minutely detailed blueprint to prevent such calamities.

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All things considered

Feb 28th 2002
From The Economist print edition

Thailand's constitution covers most eventualities

EPA

The Election Commission is watching

SRI THANONCHAI, a legendary Thai folk hero, can talk his way out of any situation. He is a master at twisting words, hoodwinking the great and the good, and getting his own way. In one story, he persuades the king to jump into a lake. In another, accused of taking the forbidden liberty of meeting the king's gaze, he argues that it was the king who looked him in the eye, not the other way around.

The 1997 constitution was designed to foil latter-day Sri Thanonchais by sheer elaboration. Bavornsak Uwanno, the secretary of the committee that drafted the 171-page document, explains that the authors wanted to leave as little room as possible for interpretation. Each of its 336 articles reflects a strong mistrust of those in authority and a commensurate determination to spread power thinly and monitor its exercise closely.

The document enshrines all the usual provisions one might find in a western constitution, and a lot more besides. Take, for example, section 30: “Unjust discrimination against a person on the grounds of difference in origin, race, language, sex, age, physical or health condition, personal status, economic or social standing, religious belief, education or constitutionally political view shall not be permitted.” That leaves little room for doubt. The constitution also shakes up parliament, the electoral system, the courts, the cabinet, the bureaucracy, local administration, education, health care, welfare, state-owned enterprises, telecommunications—in short, almost everything the government is involved in, and many things it is not.

Amid this outpouring of reform, three concerns seem paramount: to fight corruption, to put an end to rickety coalition governments, and to reduce the power of politicians and central government in favour of local government and ordinary citizens. The last of these is perhaps the most radical. Thailand preserved its independence throughout the colonial period thanks in large part to a strong, centralised, paternalist state. After the abolition of the absolute monarchy in 1932, the powerful bureaucracy also maintained a degree of stability and prosperity despite the 17 coups, 53 governments and 16 constitutions the country has clocked up between then and now.

In any one of Thailand's 76 provinces, schools are laid out according to the same floor plan, street signs look identical, and everyone from the sanitary engineers to the Buddhist monks forms part of a clear hierarchy with its apex in Bangkok. Until recently, the only elected local officials in the entire country were the city councillors of Bangkok and Pattaya.

Power to the people

The new constitution aims to “decentralise powers to localities” and “develop a large-sized local government”. The share of government revenue in local hands, traditionally around 10%, went up to 20% in 2001 and is due to rise to 35% by 2006. As the term of each of Thailand's 7,951 appointed local councils expires, elections are being held to replace them. At the same time the government is drawing up plans to decentralise the police, health care and education, aiming eventually to place these services under local control.

Those reforms alone would be enough to undercut Bangkok's powerful mandarins. But in addition, the

constitution encourages citizens to take an active role in monitoring and challenging the bureaucracy. It establishes rights “to get access to public information”, “to participate in the decision-making process of state officials”, “to present a petition”, “to sue a state agency”, “to receive explanation and reason from a state agency before permission is given for any project”, and so on. More revolutionary still, ordinary citizens can now initiate legislation or launch an impeachment on the back of a mere 50,000 signatures, in a country of 60m people.

The authors of the constitution so mistrusted Thailand's ruling class that they even tried to engineer a new class of politician, by turning the second chamber of parliament into a non-partisan body. The government used to appoint the members of the Senate, ensuring that it remained a somnolent repository of retired generals and bureaucrats who tended to rubber-stamp the decisions of the House of Representatives. Now senators must run for election, without the backing of a political party. Many thinly disguised politicians remain, but they have been joined by a bevy of NGO activists, human-rights lawyers, journalists and dissidents. The new recruits are not sufficiently numerous to control the chamber, but they are experts in rallying public ire at political machinations, and have done wonders stiffening their colleagues' spines.

These reforms reflect a growing popular feeling that public servants should be just that, and that the higher and mightier ones need to be taken down a peg or two. Prosecutors were pandering to that sentiment last December when they charged Rerngchai Marakanond with reckless misconduct during his stint as head of Thailand's central bank. Under his tenure, at the height of the economic crisis in 1997, the bank spent vast sums of public money trying to defend its cherished fixed-exchange-rate policy for the baht before eventually admitting defeat and allowing the currency to float. The government considers Mr Rerngchai solely and personally responsible for the failed strategy, and is suing him to recover the losses. Mr Rerngchai denies the charges, and has launched a countersuit against the current bank chief and two other officials for improper procedure.

The whole exercise seems grossly unfair, in that many other officials and politicians must have had a hand in the policy, as well as pointless, in that Mr Rerngchai seems unlikely to stump up the 186 billion baht he is alleged to owe. But it does show how a swell of popular indignation is rocking the bureaucracy's boat.

What's Thai for corruption?

Mr Rerngchai's case is unusual, however, in that it hinges on his performance rather than his probity. The constitution also contains a raft of measures to combat the corruption that pervades Thai public life. It is not just the grandees who are corrupt: traffic cops demand 100 baht to overlook minor driving infringements, and employees of the state telephone company charge 500 baht to speed up the installation of a new line. Indeed, corruption is so widespread that some commentators question whether Thais really consider it a vice. When discussing it, they tend to use the English term, because no Thai word seems to carry the same connotations. In a recent World Bank study, a majority of Thais thought that tipping an official for good service did not constitute bribery.

Still, along with the state of the economy and the spread of drugs, Thais routinely rank corruption as one of the country's three biggest problems. Some 60% of Thai firms consulted for the World Bank study said that corruption was a big obstacle to their business; another 25% considered it a minor obstacle. Around a third of those involved in court cases said they had been asked for money in return for a favourable judgment. A similar proportion of voters were offered cash for their ballot at last year's general election. So many soldiers pursue criminal sidelines that the supreme commander recently thought it necessary to issue an order banning military involvement in the mafia. Meanwhile, police forbearance permits an illegal gambling industry thought to equal as much as 8% of GDP. One scandal recently prompted the retirement of the highest-ranking official at the Ministry of Public Health. But no politician has ever been jailed for corruption.

The constitution established two controversial new agencies to clean up political life: the Election Commission and the National Counter-Corruption Commission (NCCC). The government has no

control over their work; their members are appointed by a complicated process designed to minimise political interference, and they both exercise powers seldom accorded to unelected officials.

The Election Commission, which conducts elections and regulates political parties, is supposed to stamp out vote-buying. When it judges that there is “convincing evidence” of fraud, it can order a re-run of any election; it can ban cheats from running again; and it can dissolve political parties that do not stick to regulations. There is no appeal against its rulings. Anyone who makes it through this minefield and is elected to public office must file a public disclosure of his assets and liabilities with the NCCC, as must senior bureaucrats. If the NCCC finds any inaccuracies or omissions, it can bar the offender from office for five years, subject to the approval of the Constitutional Court.

Barking and biting

Both agencies have exercised their mandates as vigorously as their champions had hoped and their opponents had feared. During the elections for the Senate in 2000, the first that the commission conducted, it threw out no fewer than 78 of the 200 results. In one constituency it ordered the voting repeated five times. For over a year after the original poll, it continued to investigate irregularities and order fresh elections. The NCCC proved equally bold: in March 2000, it ruled that Sanan Kachornprasart, the secretary-general of the ruling Democrat party, had filed a false asset statement. In January 2001, just days before an election, it issued a similar ruling against Thaksin Shinawatra, Thailand's richest man, the head of the opposition Thai Rak Thai party and the leading candidate for prime minister.

Moreover, the Election Commission and the NCCC are just the two most prominent watchdogs created by the new constitution. A gaggle of other independent agencies, such as the State Audit Commission, various ombudsmen and the Human Rights Commission, provide yet more mechanisms to investigate and expose official misdeeds.

Naturally, today's Sri Thanonchais are already hard at work trying to undermine the new institutions. The government has not given the NCCC an adequate budget to cope with its enormous workload, in contravention of its clear constitutional duty. Instead, it has suggested that some of the commission's work should be farmed out to a different agency, in a transparent effort to reduce the NCCC's influence. The interior ministry has fought turf battles with the Election Commission, even trying to deny it access to the government's ballot boxes. More recently, a former politician whose latest election victory was overturned by the commission managed to get himself appointed to run the outfit. Since then, the commission has adopted a much more forgiving stance towards electoral hanky-panky.

Another institution that seems to be wavering is the Constitutional Court, which holds the ultimate power to interpret and enforce the constitution. Whereas the NCCC and the Election Commission passed the first tests of their resolve with flying colours, the Constitutional Court flunked its chance to prove its mettle. When asked to confirm the NCCC's decision against Mr Thaksin, who by then had become prime minister, the court overturned it, allowing him to remain in office. Many said it had succumbed to political pressure. It had certainly succumbed to confusion, producing a muddled majority made up of two minority opinions, both in apparent contradiction of previous rulings. The members of the court, steeped in the old system, tend to construe their role as narrowly and technically as possible.

A radical achievement

But a little backsliding is only natural. The constitution in general, and the independent agencies in particular, mark a deliberate attack on the vested interests of Thai politicians and bureaucrats, so it is not surprising that some of them should resist. What is surprising is that so radical a document ever got past them in the first place.

Mr Bavornsak, of the drafting committee, believes that the ruling elite acquiesced to it only because of massive popular pressure. The drafting committee held thousands of hearings to drum up support. All around the country, enthusiastic Thais hung green banners from balconies, office windows and car aerials as a gesture of support. By the time parliament came to vote on the draft in mid-1997, the government of Chavalit Yongchaiyudh had been so tainted by the economic crisis that it was in no position to resist. Mr Chavalit, himself a former military man, is said to have sounded out the army for help to defeat the draft document, but the army wisely demurred.

Now that public determination has waned a little, the constitution's critics are trying to claw back some of the lost ground. Yet even the critics dare not oppose the document as a whole; they talk only about minor amendments. No one disputes that the people's constitution, as it is called, lives up to its name, and that it enjoys huge popular support. Moreover, it cannot be amended until next November, five years after its adoption, and then only by a majority of a joint sitting of both houses of parliament. The authors of the constitution may have thought this would be next to impossible to achieve, given Thailand's history of ramshackle, aimless and short-lived coalitions. They could not have predicted their success at meeting another of their goals: to engineer more durable and policy-oriented governments.

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Pleasing the voters

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From The Economist print edition

Parties have changed out of all recognition. But has politics?

AP

Thaksin's marketing division in action

SINCE the introduction of democracy in Thailand in 1932, the country's governments have lasted an average of 16 months. Take out the longer-lived army-backed regimes, and the average falls to six months. The explanation is simple: between 1975 and 2001, no Thai political party won so much as a third of the total vote in an election. No recent government has been made up of fewer than three parties. And the parties fight not only within the coalitions they join, but also internally; so much so that no party save the Democrats has survived for more than a generation. The result has been a peculiarly aimless and unstable form of politics.

It is not that Thai voters are particularly fickle or feckless; more that Thai politics has always concentrated less on ideology than on dividing up the spoils of office. The dinosaurs, as disgruntled Thais call the traditional political barons, used to move from one party to another, trading the votes of their power base for political bacon. Thais had no incentive to vote along ideological lines because no government lasted long enough, nor proved coherent enough to adopt meaningful policies. Instead, Thais traditionally voted for the candidate who paid the most. The victor used to recoup his investment by creaming a percentage off the contracts for the new roads, schools and hospitals he would secure for his constituency once he had got into parliament. For cynical voters, the more corrupt a candidate was, the better: it meant he could afford to pay more for votes, and bring more of his shady business to the district. The cost of corruption, meanwhile, was shared among all citizens nationwide.

Pork is off the menu

The new constitution aims to break this cycle. It puts an end to party-hopping, because members of parliament who switch parties now automatically lose their seats and are barred from competing in the subsequent by-election. If they switch parties after parliament is dissolved, they are prohibited from running in the subsequent general election. MPs who become ministers must resign from parliament, to reduce the scope for pork-barrel politics. The multi-member districts of old have been replaced by 400 constituencies that elect a single MP each, to prevent teams of cronies coming in on their boss's coat-tails. And to strengthen the role of parties and policies further, the new constitution provides for an additional 100 seats to be divided among the parties according to their share of the national vote.

On the face of it, these reforms have performed precisely as billed. In last year's elections, Mr Thaksin's newly founded Thai Rak Thai party mounted a national campaign centred on a series of spending proposals. It duly romped home with 248 seats, just three shy of an overall majority. The political machines that had dominated past elections broke down: the only old party to do well was the Democrats, long considered the most serious and responsible political force in Thailand. The constitution still permits wholesale mergers of parties, so when the 14 MPs of the tiny Seritham folded themselves into Thai Rak Thai a few months later, they made it possible, for the first time in history, for a single party to win control of parliamentwithout using military muscle.

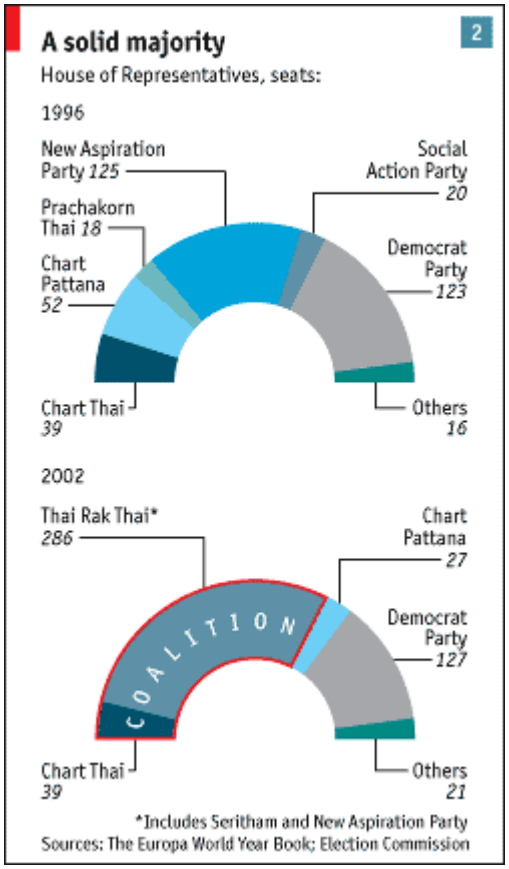
But how much has Thai politics really changed? The more effusive commentators declared that a sudden change of climate had brought the age of the dinosaurs to an end. A new species of politician, they said, would usher in an era of more substantial debate, based on strong parties with competing policy platforms. Yet sceptics insisted that Mr Thaksin was just a dinosaur with a marketing division, and predicted that he would distract the electorate with populist schemes while furthering the interests of his

business empire.

Both views have their merits. For a man supposed to represent a break with the past, Mr Thaksin certainly seems to have a lot of old-fashioned friends. Indeed, he himself has served both as a minister and deputy prime minister in previous governments, and even led another party. He started out as a policeman, and used his connections to build a business empire.

Thai Rak Thai fielded more incumbents in last year's election than any other party. Taking advantage of their last chance to switch allegiances before the ban on party-hopping took effect, the dinosaurs had defected to Mr Thaksin in droves. His biggest catch was Sanoh Thienthong, the *Tyrannosaurus rex* of Thai politics, who had enthroned and then toppled two previous prime ministers.

All this saved Mr Thaksin the bother of building a party from scratch, and allowed the old political operators to ally themselves with a rich and rising star. To this day, Thai Rak Thai has only four offices of its own in the whole of Thailand. The rest are those of its MPs, or of the parties it has absorbed. That hints at the extent to which the party was bought rather than built.



Dying dinosaurs

Nonetheless, the dinosaurs' days are clearly numbered. Many suffered stunning upsets in the elections, thanks both to the new voting system and to the strictness of the Election Commission. Indeed, the only ones to prosper were those running on Thai Rak Thai's ticket, which suggests that they needed the party more than it needed them. Moreover, now that the ban on changing parties is in force, the dinosaurs can no longer hold party leaders to ransom by threatening defection. Mr Thaksin seems to have sensed this shift in the balance: although he used political barons as a shortcut to the top, he was also careful to stock his party with fresh-faced activists and respectable technocrats.

But there was much more to Mr Thaksin's victory than savvy recruiting. His deep pockets clearly helped, as did his status as a newcomer: his freshly minted Thai Rak Thai was untainted by the older parties' association with the crash of 1997, and by their flailing attempts to repair the ensuing damage.

But above all, Mr Thaksin had policies to pitch, and knew how to pitch them. Alone among all the parties, Thai Rak Thai asked the voters what they wanted, and promised to provide it. Pollsters, political consultants and advertising firms all helped to test ideas and promote the resulting package: a three-year debt moratorium for farmers, a million-baht credit scheme for every village in the country, and universal health care with a low 30-baht charge per hospital visit. Voters everywhere were aware of these schemes, and liked the sound of them.

The Democrats protested—with some justice—that Mr Thaksin had simply stolen their ideas and souped them up. But the complaint betrays an old-fashioned, paternalist view that having the right policies matters more than persuading the public of their value. Mr Thaksin, by contrast, seemed to see merit in promoting his ideas and winning popular approval. Critics who dismissed Thai Rak Thai's platform as cheap populism were missing the point: in a country used to receiving policy edicts from on high, a spot of populism was no bad thing.

Better still, having gained power, Mr Thaksin put his election promises into practice. The debt moratorium began last July, just as village councils all over the country started dispensing their million baht each. By October, the 30-baht charge per hospital visit had been introduced nationwide. Voters may yet grow disenchanted if these programmes fail to live up to expectations. But thanks to Mr Thaksin, in future no Thai political party can expect to win an election without a popular and well-promoted platform.

However, that is not quite the same thing as saying that Mr Thaksin is helping to usher in an era of strong, ideologically driven parties. The Democrats may have some bright, articulate and well-intentioned national figures, but they still rely on the dinosaur dons of southern Thailand for most of their votes. Thai Rak Thai, for its part, fits neatly into the Thai tradition of bespoke political outfits tailored to turn their ambitious leaders into prime ministers. Ask any senior member what Thai Rak Thai stands for, and they will begin with a long paean to Mr Thaksin's virtues. Of the 330m baht that the party collected in donations for last year's election campaign, 300m came from Mr Thaksin's family. For a time, Thai Rak Thai even ran its campaign from a building belonging to one of Mr Thaksin's companies.

Mr Thaksin does not seem interested in giving the party a life of its own. Instead, he follows a deliberate policy of divide and rule. Although Thai Rak Thai already commands an absolute majority in the House, he keeps trying to recruit more MPs to the government and the party. He has already drawn two parties into coalition with his own and is courting a third. In the meantime, one of the coalition members has voted to merge with Thai Rak Thai, as Seritham did earlier. All these moves make little sense in terms of preserving a coherent ideology or an impetus for reform. If anything, they dilute the influence of reformists and ideologues within the government. Yet that seems to be exactly what Mr Thaksin wants: to reduce the leverage of any particular group of supporters by making sure there are lots of competitors.

Indeed, if Mr Thaksin has one clear aim, it is to concentrate as much power in his own hands as possible. His current manoeuvrings could enlarge his coalition to the point where the opposition no longer has enough votes to launch a no-confidence debate or block a constitutional amendment. He appears to see little merit in checks and balances. When the Constitutional Court was reviewing his case, he wondered aloud whether an elected prime minister should have to submit to decisions by unelected judges. Unlike his predecessor, who made himself available for frequent interrogation by parliament, Mr Thaksin rarely sets foot in the building. He has spent much of his time in office castigating the press, academics, businessmen and anyone else who criticises him.

The power and the money

The critics' biggest concern seems to be Mr Thaksin's combination of wealth and political power, and the risk that he might use one to advance the other. Some journalists have accused his family's firms of withholding advertising from critical newspapers, a charge he denies. There is no denying that a company controlled by his family bought up Thailand's only private television channel and subsequently fired many of its free-thinking reporters. It is also a fact that in addition to Mr Thaksin, the cabinet features a car-parts millionaire, a meatball magnate and yet another telecoms tycoon. According to one common quip, instead of buying a few politicians, Mr Thaksin and his fellow businessmen have bought the entire government.

Yet big businessmen everywhere seek to influence politics, whether they hold formal office or not. They also seek positive coverage from the media. It seems only natural, if not exactly edifying, that Mr Thaksin would instruct his companies to spend their advertising budgets on friendly publications. Likewise, most countries have parties that represent the interests of big business—and if not, they often suffer from a much shadier kind of influence-peddling. Mr Thaksin would be doing Thailand a favour if he brought the process of lobbying into the open by setting up an avowed party of business, akin, say, to America's Republicans.

But Mr Thaksin and his colleagues would be better placed to advance a broadly pro-business agenda if they eliminated all concerns about conflicts of interest. Unfortunately, his government has taken steps that benefit not just big firms in general, nor even some sectors in particular, but specific companies in which Mr Thaksin's own family has an interest. In October, for example, it approved a law limiting foreign ownership in telecoms companies to 25%. It just so happens that of all the big telecoms companies in Thailand, only Mr Thaksin's family's business already meets that standard. His breezy defence—that he has sold his stake in the company to his son, and that as prime minister he cannot avoid making decisions about a sector as important as telecoms—is hard to take seriously.

Still, faced with outrage from the media, the government has backed down and pledged to revert to a 49% ceiling on foreign ownership. Moreover, there is another check on Mr Thaksin's freedom of action that could affect both his political career and his business interests much more profoundly: Thailand's economy.

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A load on its mind

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Thailand's biggest problem is debt

Bangkok overbuilt

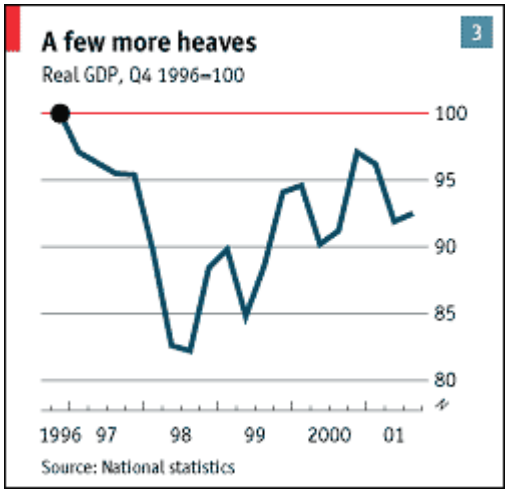
FROM a distance, Bangkok's skyline looks impressive. Monumental apartment blocks and office towers rise heavenwards all over the city. Even the elevated Skytrain seems boxed in amid the serried ranks of skyscrapers. The city seems so upwardly mobile, it is hard to believe it is stuck in a five-year slump.

But on close inspection, many of the buildings are empty and unfinished. Some are glaring, hollow hulks; others seem tantalisingly close to completion. Some already look occupied; it is only when night falls and no lights come on that you realise they are vacant. It turns out that Bangkok is only half the city it seems.

Those buildings make an apt metaphor for Thailand's economy; after all, property speculation played a big part in the crash of 1997. For decades, the bank deposits of Thailand's thrifty citizens had helped to maintain an investment rate of around 30% of GDP, which fuelled blazing growth. In the early 1990s the government loosened restrictions on capital flows, which brought even more money into the economy. With growth still climbing, but traditional export industries showing dwindling returns, investors began pouring their money into infrastructure and property instead, pushing up asset prices. With a fixed exchange rate, Thais saw no harm in borrowing cheaply abroad to expand their rapidly appreciating investments, especially in trophy office towers and “executive apartments”.

But as export earnings slowed and the asset bubble expanded, financiers began to doubt the country's ability to pay back all that foreign debt, much of it short-term. They started pulling out their money, putting pressure on the baht's fixed exchange rate. In the end the Bank of Thailand, led by the unfortunate Mr Rerngchai, allowed the currency to float, starting it on a downward spiral that eventually halved its value. That doubled the cost of foreign debt, pushing many banks and businesses under. Those that survived had to live with near-worthless assets, including much of Bangkok's movie-set skyline, and crippling interest payments.

Five years on, that skyscraping debt and excess capacity is still weighing the economy down. Some 10% of bank loans remain bad. That looks like a dramatic improvement on the 45% of three years ago, but much of the difference is due to shunting bad debts off the balance sheet and into asset-management companies. More worrying still, the rate is climbing again because many of the supposedly restructured loans have soured once more. Roughly half the country's industrial capacity stands idle, so businesses do not want to borrow, even supposing the shaky banks felt like lending. And the economy as a whole, which had been used to luxuriant growth (an average of almost 8% a year, and never less than 4% in the two decades before the crash), remains smaller than it was in 1996 (see chart 3).



Pencil-headed economists would say (and did say) that all Thailand needed to do to resume the path of prosperity was to clear up the debt overhang: sell the bust firms, redundant capacity and overvalued collateral for what little they were worth, write off the losses, and start the business of lending and investing all over again. The previous government made a stab at this, closing dozens of financial institutions, recapitalising others, and encouraging speedy resolution of debts.

The long road back from ruin

But even with the best of intentions, the process is agonisingly slow; and as with those glitzy new Bangkok buildings, it is hard to tell which firms are viable. Bureaucrats in the state-owned banks (of which there are many, thanks to government-led recapitalisation) are reluctant to write down debts for fear of being held personally responsible for the loss, like Mr Rerngchai. Strong privacy laws prevent Thailand from establishing credit agencies to help assess lending risk.

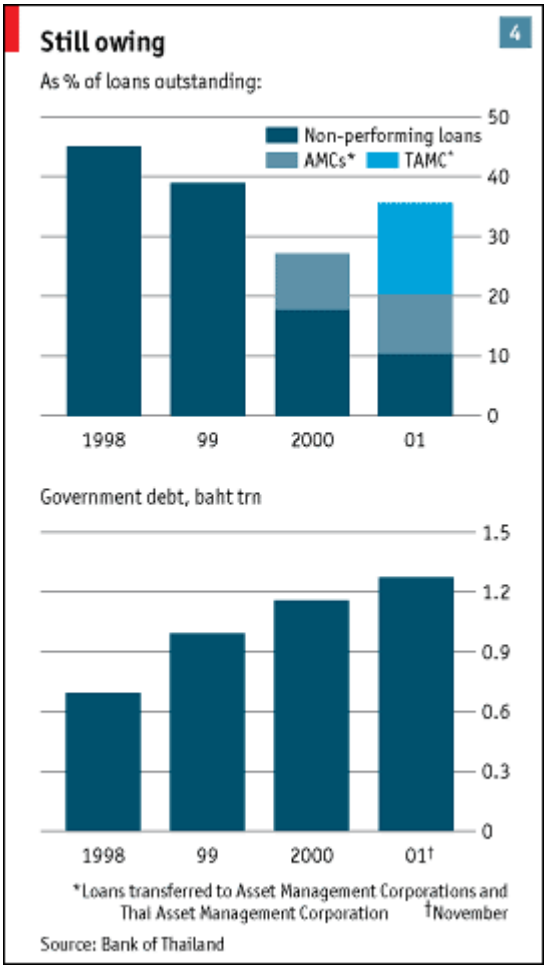
Nor is it safe to assume that everyone's intentions are good. Despite an overhaul of the bankruptcy laws in 1998, it is still awesomely difficult to foreclose on debts: the definition of bankruptcy turns on net worth, as opposed to cash flow, and the process is slowed down by a two-track system that separates forced restructurings from forced liquidations. Businessmen who want to stave off the inevitable have plenty of scope.

Take Thai Petrochemical Industry (TPI), which owes some $2.9 billion, making it the country's biggest corporate debtor. Although the company stopped paying interest on its loans in 1997, it took the creditors almost three years to impose a restructuring plan, and another eight months to remove the former owner from the job of chief executive. They had to cope with death threats, street protests, union manoeuvres and even arrests over irregularities in their paperwork. The former owner has launched no fewer than 28 lawsuits against the administrators, Ferrier Hodgson. Although he has been ousted from the main company, he remains at the helm of a subsidiary in which TPI has a 49% stake. Peter Gothard, a director at Ferrier Hodgson, describes the problem succinctly: “There's no credible threat of liquidation for a company that doesn't pay its debts.”

TPI may be an unusually drawn-out case, but it reflects the attitude of many Thai debtors. They argue that they would still be solvent if the government had stuck to its promise to preserve the value of the baht. Others maintain that the post-devaluation recession would have been less severe had the IMF not insisted on keeping interest rates high and government spending low long after the current-account crisis had subsided. Many Thais have persuaded themselves that foreigners are trying to impose a fire-sale of their assets and reduce their country to economic servitude. And the bankers, businessmen and politicians (many of whom are the same people) are all in this together, because they all have an interest in keeping the nation's notional net worth as high as possible. Faster economic growth would improve the prospects for distressed firms, struggling banks and embarrassed politicians. So Thailand's elite still wants to delay—ie, avoid—the day of reckoning, in the hope that growth will solve the debt problem painlessly.

For a brief spell in 1999 and 2000, when the devalued baht caused exports to surge and growth topped 4%, salvation seemed at hand. But then the world economy stalled. Recession-strapped America, Japan and Singapore together account for 45% of Thailand's exports. Tourism, another big money-earner, is suffering in the wake of September 11th. Foreign investment, which actually rose after the crash as multinationals snapped up distressed Thai businesses, is now on the wane. Mr Thaksin's occasional fits of nationalism, of the sort that limits foreign ownership of telecoms companies, have been unhelpful. This time round, the outside world seems unlikely to rescue Thailand's economy.

The government has resorted to all sorts of tricks to jump-start the economy. It is selling minority stakes in state-owned enterprises on the stock exchange, in the hope of inspiring a rally. It is handing out cut-price mortgages to civil servants. It has tried to mend fences with foreigners by offering tax breaks to firms that put their regional headquarters in Thailand. Last year it even encouraged the central bank to raise interest rates, arguing that this would stimulate spending by making depositors feel richer. Fortunately the Bank of Thailand has since reversed this policy and cut interest rates several times.



Try Keynes, and capitalism

But in the main, Mr Thaksin's economic plan consists of old-fashioned pump-priming. The government has devoted billions to its three pet spending schemes—a moratorium on farmers' debt repayments, the provision of an investment fund for every village and a cut in the cost of hospital visits. According to Somkid Jatusripitak, the finance minister, these programmes serve the dual purpose of providing a Keynesian stimulus and helping to unleash the neglected entrepreneurial talent of Thailand's craftsmen and small farmers. Snobbish pre-crash moguls ignored such people, he says, but the government will turn them into an engine of growth.

But there are problems with both halves of the argument. On the stimulus side, the need for a debt moratorium shows that people in the countryside, like those in cities, have been living beyond their means. They are likely to spend any extra income on repaying their loans rather than ploughing it back into the economy. As for unleashing frustrated rural talent, it is an attractive idea: after all, the majority of Thais live outside the big cities, and the rural poor have borne the brunt of the crash as the urban jobless look to their country relatives for support. But the idea is unlikely to get very far. It was not only snobbery that caused the financial system's neglect of the countryside, but also doubts about the returns to be made—and those doubts persist. Cheaper health care and better education would certainly help rural areas, but to provide them nationwide is unduly expensive. Carefully targeted subsidies and incentives would be better.

The government, meanwhile, is racking up debt to pay for it all. Mr Somkid initially promised to keep the public debt below 60% of GDP; now he says it will reach 65%. If the government were not running a deficit, the downturn would doubtless be more severe, but it is always easier to start spending programmes than to roll them back. And the extra money being spent is barely keeping Thailand afloat, not restoring it to vigorous growth. The danger is that the country could soon pile up an enormous, growth-choking public debt, in addition to all its other woes. Fiscal stimulus is no substitute for resolving Thailand's bad private debts.

To be fair to Mr Thaksin, he has a debt-resolution scheme too, in the form of the Thai Asset Management Corporation (TAMC). Whereas the previous government tried to encourage the banks to sort out their own bad debts, the TAMC aims to do the job for them. It has bought up all the state banks' bad loans at 33% of their face value. It also plans to buy up a substantial volume of bad loans from private banks,

under a loss-sharing agreement that reduces the taxpayer's exposure.

Financial shock troops

The TAMC's officials have been given summary powers to force restructuring plans on the debtors or foreclose on their assets, and have been granted immunity from prosecution for losses they might incur in the process. Ammar Siamwalla, a prominent Thai economist, reckons that creating the TAMC is the financial equivalent of declaring martial law.

Yet many banks do not seem as enthusiastic about the scheme as they might be. The value of loans transferred from private banks fell short of expectations, which many observers put down to fears that the TAMC will go soft on well-connected debtors. In fact, Thailand's privacy laws will make it impossible for outsiders to tell how tough the TAMC is being. What is certain is that the agency will give state-owned banks an advantage over private ones, by completely clearing their balance sheets. That would be fine if the government simply wanted to sell them, but instead it is encouraging them to start lending again in an effort to boost the economy. It has even slightly relaxed provisioning requirements and rules on valuation to speed an expansion of credit. All this raises the spectre of more bad lending decisions.

If the world economy picks up quickly, and Thailand's exports and tourist trade rise with it, the debt problem might simply knock a few percentage points off the country's growth. But a gloomy global outlook, higher public spending and lingering debts might launch Thailand on a prolonged deflationary spiral akin to Japan's. The head of Thailand's bankers' association recently suggested that the country's slump could last another eight years.

Indeed, some question whether Thailand will ever prosper again. Debt or no debt, they argue, its companies simply cannot compete on the world stage. Luckily, there are plenty of reasons to disbelieve them. If Thai firms can escape from the dead weight of debt, they might soon fill every empty building in Bangkok.

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Give it a chance

Feb 28th 2002
From The Economist print edition

Despite its problems, Thai business has plenty of potential

Corbis

Dead fish, live jobs

THAI PETROCHEMICALS, the country's biggest debtor, is suffering from most business problems under the sun. Apart from its mountain of debt and the endless legal wrangles that come with it, it has to contend with overcapacity, excess labour, a lack of professional managers, a global slump in petrochemical prices and much else besides. And the dispute over the management of the company has become increasingly violent. On one occasion, a member of its staff found a grenade in the office toilet. At a creditors' meeting, the bankers trying to pass the pickets were pelted with bottles and doused with whisky. Their colleagues trapped inside the building had to escape on a boat along a canal at the back. But even in the company's darkest moments, there was one thing that never seemed to be in doubt: the commercial potential of its product. If TPI can ever rid itself of its crushing debt burden, everybody agrees, it can produce petrochemicals of good quality at competitive prices.

As it happens, Thailand has recently become a net exporter of petroleum products. Shell, Caltex and Esso have all built or expanded refineries there since the crash, despite plummeting forecasts of regional demand. The country's exports of petrochemicals nearly quadrupled in value between 1996 and 2000. The same sort of thing is happening in several other sectors. Vehicle sales in Thailand dwindled from over 500,000 in 1996 to fewer than 300,000 in 2001, yet BMW, General Motors and Toyota have all recently expanded their capacity or are planning to do so. Thailand now produces more pick-up trucks than any other country save America. Despite the struggling domestic market, the big car makers clearly still view Thailand as an attractive export base.

In the long run, Thailand's economic fate hinges on such exports. It was the boom in exports that created the economic miracle of the late 1980s, and the slump in exports in 1996 that heralded the coming crash. Exports almost restored Thailand to health two years ago. Yet analysts have long complained that Thailand is neither fish nor fowl: not as cheap a place to do business as poor countries such as Vietnam and Indonesia, but not as well provided with skilled workers and infrastructure as more affluent places such as Malaysia and Singapore. That criticism hits home even more now that China has joined the World Trade Organisation. China has a population 20 times the size of Thailand's and an economy eight times as big. If it can make everything better and more cheaply, the argument runs, why bother making anything in Thailand at all?

But that question rests on bad economics. Even if China really does make everything better, it still stands to benefit by concentrating on the products where it has the biggest advantage, and leaving the rest to others. Besides, Thailand has advantages of its own: it may be small, but it is a member of the ASEAN Free Trade Area, a trade block of ten South-East Asian countries with a total population of over 500m. That makes it a bigger market than the whole of Latin America—and a fairly integrated one, with a maximum tariff of 5% on trade among its members (although a few important products are excluded). AFTA's income per head, at $1,120, is 40% higher than China's. Thailand, and many of its AFTA partners, enjoy much freer markets and politics than China.

Moreover, if China does continue to grow at breakneck speed, it will absorb more imports, both from Thailand and from the other AFTA countries. As it is, Thailand's exports to China have tripled since 1993, and Chinese tourist arrivals in Thailand have quadrupled. AFTA and China recently agreed to start free-trade negotiations. South-East Asia still seems a worthwhile place to do business.

Alas, the investors who poured so much money into Thailand over the past 20 years cannot always be

relied on to apply the law of comparative advantage, or even common sense. The AFTA countries used to win far more foreign direct investment than China; now the tides of fashion have turned against them.

Yet the petrochemical and motor industry sectors prove that Thailand can be highly competitive when it tries. Thai workers do indeed cost more than their Chinese counterparts, but labour makes up only a small part of the cost of most products. As John Parker, the regional head of Ford, explains, Thailand's tax incentives, open markets and strong local car-parts industry more than make up for any disadvantage in labour costs.

Even with less capital-intensive businesses, the outlook is not uniformly gloomy. Thailand's textile exports may suffer when the WTO phases out the current quota system, but other trades, such as agriculture and food processing, could prosper. Thiraphong Chansiri, the boss of Thai Union Frozen Products, a huge tuna canner, is not worried about labour costs, even though he works in the low-cost field of “selling dead fish”, as he puts it.

The red-tape factor

However, Mr Thiraphong does fear competition from places such as Vietnam, because he reckons that the government there is better than Thailand's at cutting red tape. He is not alone. In a recent study of seven different sectors of the Thai economy, McKinsey, a consultancy, found that poor government regulation was the single biggest barrier to productivity growth in almost every instance, whether in manufacturing or services, in export-oriented or locally consumed products.

In fixed-line telecoms, for example, the report shows how the state-owned Telephone Organisation of Thailand and Communications Authority of Thailand have exploited their double role as regulators and operators to the detriment of competition. Banking regulations help protect local firms from foreign rivals. The government has failed to prevent Thailand's dominant whisky producer from exploiting its position to corner the beer trade. Protectionist tariffs on corn and soyabean imports push up the cost of chicken feed, harming Thailand's chicken exports. Officials are not uniformly zealous in enforcing labour standards and confiscating counterfeit goods. And McKinsey is too polite to mention the most glaring distortion of them all: corruption.

It takes two to commit bribery, and Thai businessmen are far from blameless. Their management style often leaves a lot to be desired, too. Many rely on personal ties, employ family members in place of professional managers, eschew the capital markets and ignore all principles of good corporate governance. But then businessmen respond to the regulatory climate in which they operate, and in Thailand some businesses, like some people, seem to be above the law. Thailand could easily improve its regulations, and hence its international competitiveness—but only if it takes on the vested interests that brought on the distortions in the first place.

Still, in business, as in politics, the tumultuous events of the past five years are helping to level the playing field. Institutions such as the NCCC may succeed in cutting down on bribery. The biggest change, however, will come from shaking up the financial system. In the giddy days of the boom, the stockmarket valued companies according to their size and the speed at which they were growing. The big conglomerates cheerfully jumped into new areas quite unrelated to their existing businesses, simply to establish a presence. Loans were based on collateral, and there was lots of spare money sloshing around, so sound management counted for little. Back then, says Mr Thiraphong of Thai Union Frozen, his refusal to borrow and branch out was considered a liability.

Nowadays it is fast growth and scale that seem suspect, because they awaken memories of the over-leveraged firms that suffered most from the crash. Banks have recently been taking much more interest in cash flow and transparency. And people like Mr Thiraphong, who can say “shareholder value” and “corporate governance” without blushing, find themselves lionised. His company's market capitalisation has climbed from 2 billion baht in 1993 to 17 billion baht today. Such success might just prompt a little imitation.

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Nasty business

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The sex and drug trades are flourishing

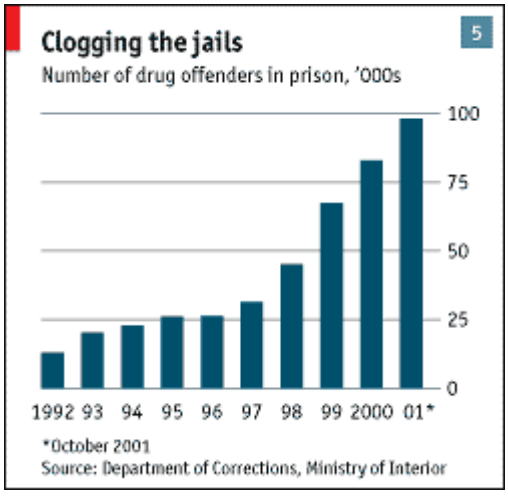
AP

Plenty more where that came from

TWO more Thai businesses merit special attention. They are pervasive and lucrative, they thrive through boom and bust, and they cater to both the domestic market and the export trade. Unfortunately they are also both illegal, and each has generated a public-health crisis of frightening proportions. Fortunately the government has started to get to grips with the spread of AIDS through the sex trade, and might be able to stem the damage done by the drug trade by applying some of the same techniques.

From the southern "massage parlours" catering to Malaysian day-trippers to the northern flophouses for truck drivers on their way to China, there is always a brothel at hand in Thailand. A couple of years ago infection rates for HIV, the virus that leads to AIDS, began to shoot up alarmingly among sex workers. The government, which had initially dismissed the disease as an affliction of drug addicts and homosexuals, swung into action. A vigorous public-health campaign promoted the use of condoms in brothels, to prevent the spread of the disease from prostitutes to their customers and on to others. It worked: people buying sex behaved more cautiously, and the HIV infection rate began to fall.

By one projection, Thailand's speedy intervention has saved some 200,000 lives to date. It has also saved billions of baht in medical treatment and lost working hours that a developing country such as Thailand can ill afford. This success seems all the more remarkable because, contrary to outsiders' perceptions, Thais are quite prudish. In opinion polls, they rate loose sexual mores as one of their country's chief social ills. So it took courage for the government to tackle the issue, let alone launch a campaign with the embarrassing name "100% condom".



The crazy gang

Stemming the drug trade will need all that courage and more. Drug dealers, like prostitutes, are a dime a dozen. Every alley in Bangkok has a resident fleet of motorcycle taxis, and every one of the drivers can procure *ya baa* (methamphetamine). "The crazy pill", a variant on speed, is Thais' drug of choice. The innovative drugs lords of Myanmar began churning out *ya baa* in the early 1990s to supplement their sales of heroin. Until then, Thailand had served more as a staging post than a market for drug-smugglers, because relatively few Thais use heroin.

But Thais lap up *ya baa*, and countries such as America are less bothered by it than by traditional hard drugs. Dealers have been seriously pushing the stuff for only about a decade, yet as many as 8% of adult Thais have tried it, according to a recent survey co-ordinated by Thailand's Narcotics Control Board. Manual labourers and factory workers took it up first, as a way to stay alert and energetic during long shifts. But it has also become a fashionable recreational drug in Thailand's universities and schools.

Newspapers carry a steady stream of scandalised reports about six-year-old addicts, and even sober government surveys suggest that the average age of users is steadily falling even as their number grows. In its annual report for 2001, the Narcotics Control Board estimated that the number of people abusing *ya baa* had doubled in a year.

Thailand is the first country to experience methamphetamine abuse on anything like this scale, so no one knows what long-term effect this epidemic will have. For many Thais, at the moment it means nothing more than the odd hair-raising taxi ride with a pill-popping driver. But the experience of the Suan Prung psychiatric hospital, in the northern city of Chiang Mai, provides a frightening pointer to the future. In 1996, the hospital treated 12 times more alcoholics than *ya baa* users. Now, *ya baa* users outweigh alcoholics.

Relatives generally bring in the patients when their paranoia and hallucinations become too violent to control at home. Heavy iron bars separate a ward full of sedated patients from the hospital staff. Upstairs, addicts who have overcome the initial period of withdrawal are sleeping two to a bed. The hospital has neither the space nor the staff to care for them all. Even after six months of treatment, some 50% will relapse, says Kittipong Sanichwankul, a psychiatrist at the hospital.

People like Dr Kittipong see only a small proportion of *ya baa* users. Violent behaviour normally develops only after several years of consistent use. But with the epidemic still growing, no one can predict how many people will require expensive hospital treatment, or how many of them will ever lead normal lives again. It is clear that the young are most susceptible: none of Dr Kittipong's patients is over 30. For the most part, they come from stable, rural families. They are just the sort of people Thailand can least afford to lose.

For now, *ya baa* cases are swamping the courts and the prisons. Over 60% of court cases involve drugs, says Phongthep Thepkanjana, the justice minister. Over the past decade, the number of people jailed for drug offences has increased sixfold. Thailand's prisons were built to hold about 90,000 inmates, but they now house over 250,000. A further 80,000 drug cases come before the courts each year. Not only is this cripplingly expensive, but there are fears that *ya baa* may feed all kinds of other social ills. In a culture that dreads confrontation, road rage cases are on the rise. It seems likely that a large proportion of work and traffic accidents, not to mention brawls and assaults, involve *ya baa*.

Attempts to cut off the supply seem doomed. It costs about 2 baht to make a pill that can be sold for 100 baht. So even if the Thai authorities managed to confiscate 97% of all shipments, drug dealers would still be making a 50% return—without allowing for the increase in price caused by scarcity. Anyway, most of the supply comes from the eastern fringes of Myanmar, where neither the Thai nor the local government wields much influence. Since the army and police clamped down on smuggling across the frontier with Myanmar, traffickers have simply switched to more roundabout routes through Laos, and across the Gulf of Thailand. As the Narcotics Control Board's report baldly states, “The total amount of seized methamphetamine could not make much difference when compared with the total volume of imported methamphetamine.”

The government is taking some sensible steps to deal with the deluge. It has drafted a new law to divert *ya baa* addicts from the courts and prisons into rehabilitation programmes. Those already in jail are being sent to army boot camps. To fund these and other schemes, the government has doubled its counter-narcotics budget for this year.

But less than 10% of that money is spent on dissuading people from using the stuff, and most of that in turn goes on flashy television ads. Yet doctors, NGO activists and academics all agree that there is no substitute for face-to-face outreach programmes in schools, clinics, factories and offices. Although the government has pledged to do more in this area, its programmes are still in their infancy.

Meanwhile, it does not help that Thailand's triumph over AIDS turns out to be less complete than first imagined. The existing public-health campaigns are directed at prostitutes as the main agents of infection. But as Thailand becomes more liberal, more people engage in unpaid casual sex. Schoolgirls are now contracting HIV from their sugar-daddies and passing it on to their boyfriends. Prison inmates (including all those *ya baa* addicts) get infected by sharing tattooing equipment and drug paraphernalia, or through anal sex. When they are released, they pass the disease on to other sexual partners. In Bangkok, probably the most free-living part of the country, the infection rate has begun to rise again.

Broaching these subjects is infinitely more difficult than admitting that Thais frequent brothels. Moreover, a combination of past success and fiscal pressure have cut into the anti-AIDS budget. The campaigns

against AIDS and *ya baa* will be competing for public funding, popular attention and the support of NGOs and activists. And these are just two of the myriad social issues Thailand is facing.

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Land of frowns

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Thais are impatient for change, but it will take time

THAIS are often described as mild, polite and deferential to authority. Yet these days you cannot open a Thai newspaper without seeing a report about some new petition, demonstration or boycott. On an ordinary day earlier this year, the *Bangkok Post* carried reports about drug addicts denouncing an army-run boot camp; journalists protesting against the government's media policy; academics decrying plans for new power plants; and businessmen complaining about a scheme to build new piers in the Mekong river. According to one much-quoted figure, no fewer than 1,000 protests against the government are held each year. Nor are such displays limited to the educated and demanding residents of Bangkok: indeed, some two-thirds of the protests take place in the countryside. Thailand, known as the land of smiles, is becoming a country of frowns.

This is all quite new. Isra Nitithanprapas, a judge on Thailand's Constitutional Court, likes to tell the story of a government adviser who went to the countryside after the abolition of the absolute monarchy in 1932 to ask people what they thought of constitutional rule. One farmer inquired in puzzled tones, “Whose son is this Constitution fellow?” Nowadays, Thais everywhere are much better informed. Noodle sellers in Bangkok and fishermen in southern seaside villages hold forth enthusiastically about community rights and corruption probes.

AP

They can't get enough of him

The trouble is that public awareness seems to have moved far ahead of official practice. At the root of every protest lies some sort of official abuse: an improper procedure, a corrupt or high-handed bureaucrat, a right guaranteed on paper but ignored in practice. To be fair, no country lives up to the ideals expressed in its laws. There is always a lag between adoption and implementation, all the more so if it involves an entire new constitution. Parliaments must draft supporting legislation; ministries have to devise accompanying regulations; officials have to familiarise themselves with the new rules; and the police and courts must enforce them. The vast scope of Thailand's 1997 constitution makes this challenge all the greater. And no law, however well it is enforced, can bring about an immediate change of mentality. In Thailand, all this has led to a massive mismatch between popular expectations and the government's actual conduct.

Take the current controversy over a plan to build a gas pipeline across southern Thailand. Malaysia's and Thailand's state-owned oil firms signed an agreement to build the pipeline in 1999. Two years earlier, the new Thai constitution had enshrined the state's obligation to preserve traditional communities' way of life, to seek independent advice on all projects that might affect the environment, and to encourage popular participation in the work of the bureaucracy. Yet the handling of the project seemed to ignore all these strictures.

We'd rather go fishing

Villagers in Jana, the district where the pipeline will come ashore, say they first learned about the project from the television coverage of the signing ceremony. They fear that the pipeline will bring large-scale industrial development in its wake. Fishing and handicrafts, they say, pay better than factory jobs, and offer much more pleasant working conditions. They also worry that development would bring pollution, which might damage fish stocks and put an end to their traditional (and lucrative) pastime of breeding songbirds. They suspect that the bureaucracy is trying to bamboozle them into accepting a seemingly innocuous decision that will in fact undermine their whole way of life—just the sort of thing the constitution was designed to prevent.

Yet the Thai government started the process of consultation only after it had committed itself to the scheme. No law had yet been drafted to implement the relevant clause of the constitution, so the government held a public hearing under an old prime ministerial order which specified that people could take part in the hearing only by invitation. TTM, the company building the pipeline, says it invited everyone concerned; the opponents of the pipeline say the company rigged the invitations to guarantee a favourable response. On the day, protesters besieged the venue, battled with riot police and forced a delay. The government called upon a former army general to hold a second hearing. He rattled through the process with military efficiency, bringing down his gavel even as another angry crowd stormed the gym where the hearing was being held.

Another farce developed over the report on the project's environmental impact. People in Jana are so hostile to the experts who wrote it that they have inscribed the authors' names on a concrete slab at the landfall site. That way, say the locals, they can stamp on the names every time they come to protest. The supposedly independent panel the government convened to review the report's findings was made up chiefly of bureaucrats, but one of the few academics on the panel held up the review by demanding a more thorough assessment of the project's social impact. Her colleagues, she says, did nothing to back her up. Instead, they tried to rig the review by doctoring the minutes and keeping her away from meetings. She now wants the panel to reconvene so it can follow the proper procedure, but the government maintains that the work is done.

In the meantime, activists at the Noodles Against the Pipeline café in Jana say they do not trust officials any more. One indignant old fisherman claims that he was told not to fear gas leaks, because TTM had a satellite that could suck them up. Whatever the truth of such allegations, it is clear that the bureaucracy is determined to push the project through. It is not inconceivable, as TTM insists, that the majority of villagers actually want the pipeline to go ahead. But the constitutional mechanisms to test their opinion are not yet functioning properly. The pipeline's opponents say that leaves them no option but to resist its construction by force.

Lawless as yet

The Council of State, an agency that helps the government to draft legislation, is working on a new law to improve public hearings. But Chaiwat Wongwattanasan, the head of the council, cannot say when it will be ready. Anyway, the new law will plug just one of dozens of holes in the constitutional dyke. The phrase “as provided by law” appears in the constitution 73 times; until parliament enacts appropriate laws, such clauses are, in effect, void. The task could take years. When asked how the government might craft legislation to define traditional communities, or popular participation, or any number of other concepts enshrined in the constitution, Mr Chaiwat responds wanly, “We have to think about that.” Mr Isra, the Constitutional Court judge, suggests an amendment to the constitution to oblige the government to legislate on such lacunae within a set time.

Even once the relevant laws have been put into place, it will take a good few court battles (or street battles) to impress their importance on recalcitrant bureaucrats and impatient businessmen. Friction between the government and ordinary citizens seems bound to increase. Indeed, social ferment in general seems bound to rise. Between them, the new constitution and the crash have put Thailand's laws, politics and business in flux.

The protests may be endless, but given how much is at stake, it is striking how peacefully the whole business has been conducted so far. Less than ten years ago, the army was shooting pro-democracy activists in the street; now there seems no prospect of a coup. Other countries in the region have seen pogroms against minorities and violent clashes with separatist groups, yet Thailand has been spared. At least 10% of Thais have some Chinese blood, including many wealthy businessmen, but their success seems to have caused no resentment; instead, Thais elected the most successful such businessman as prime minister. The Muslim areas of southern Thailand account for a further 5% of the population, yet the sort of religious tension that is rising in the Philippines or Indonesia is on the wane in Thailand. Muslims even share out their votes among different parties, a sure sign of political integration.

One explanation of Mr Thaksin's rise is that he has understood the popular feeling of dislocation and harnessed it for political purposes. He certainly takes pains to meet and commiserate with protesters of all stripes. When municipal councillors rallied outside his office to decry a new mandatory-retirement policy, he wandered out in his shirtsleeves to talk to them. He also travelled to Jana to hobnob with opponents of the pipeline. He may have no intention of meeting the demands of the disaffected, but he clearly sees political value in listening to them. If others take their cue from him, Thailand's political

system should be able to cope with the country's current tensions.

The uses of kings

EPA

The ultimate guarantee of stability rests with King Bhumibol. Although his legal powers are vestigial, Thais still preserve an exaggerated respect for the monarchy. For weeks before and after the king's birthday, windows with congratulatory messages pop up on Thai websites. Hotels, restaurants and shops prepare special commemorative shrines. On the night itself, thousands of Thais from all over the country gather outside the royal palace to light candles and sing adoring songs. All year round, every movie screening begins with a special royal anthem. Anyone who does not stand gets a poke from an usher. One (perhaps apocryphal) story has it that in 1992, when the army was suppressing pro-democracy demonstrations, activists got the soldiers to stop shooting by singing the anthem. But when they ran out of verses, the firing resumed.

On that occasion, it was the king who eventually put an end to the violence. He summoned the army chief, along with the most prominent advocate of reform, for an even-handed dressing-down, paving the way for a peaceful restoration of democracy. From time to time the king still comments on politics, albeit in a suitably oblique manner. In his birthday speech last December, the king spoke of the “disaster” facing the country. The problem stemmed, he said, from a failure to listen to criticism. There was no doubt about the intended target of his comments, but they were phrased ambiguously enough to save Mr Thaksin's face.

Outsiders might squirm at the idea of a constitutional monarch chiding an elected prime minister. But Thais seem to think of the king as an arbiter of political propriety, not an offender against it. Indeed, their concern is that the king will not be able to play that part indefinitely. He is 74, and suffers from a variety of ailments. His son, Crown Prince Vajiralongkorn, is held in much less esteem. Bangkok gossips like to swap tales of his lurid personal life. One of his sisters, another possible heir to the throne, is more popular, but Thailand has never been ruled by a woman.

Besides, no successor, however worthy, can hope to equal the stature King Bhumibol has attained after 55 years on the throne. The monarch's role is bound to diminish with his death. But that might not be such a bad thing: ideally, Thailand will develop a political system robust enough to regulate itself, without intervention from the monarch. The best legacy the king could bequeath his subjects is a state where everyone is subject to the law—including the king.

In the 15th century, King Borommatrailokanat, one of King Bhumibol's ancestors, devised a new legal system. He assigned a certain number of points to every profession and rank in the country. An ordinary farmer, for example, scored 25, a minister 10,000, and the heir-apparent 100,000. The outcome of court cases depended on the number of points each of the parties to the dispute could muster. Even five or ten years ago, that system survived broadly unchanged. Decisions were handed down from on high; power was centralised; and the law was a tool of the mighty. But as the constitution redistributes political power, and the after-effects of the financial crash reshape the economy, that is changing. Mr Duangchalerm may still score a few more points than Mr Suvichai—but the difference is narrowing fast.

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European airlines

Flag carriers at half-mast

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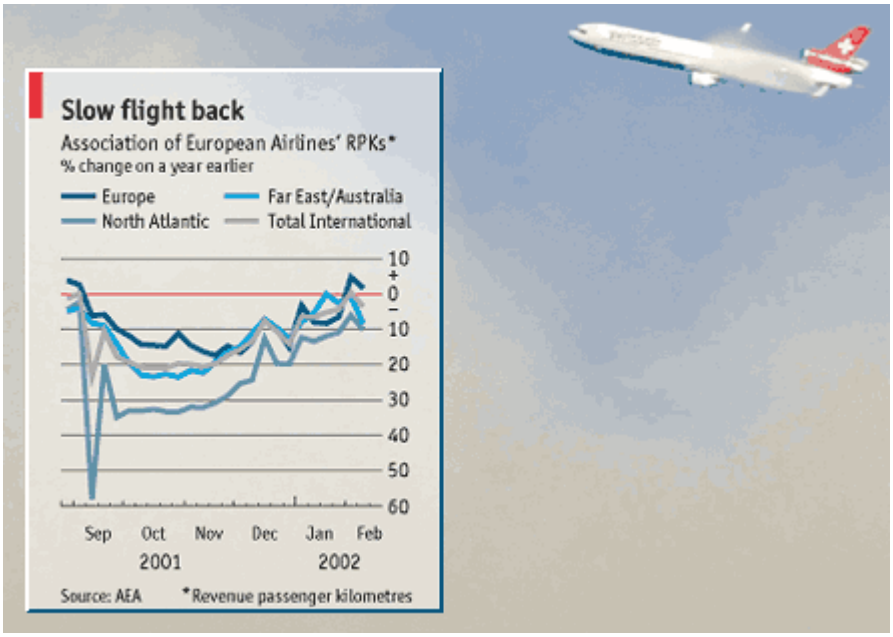

Europe's national airlines, still struggling out of the slump, face an onslaught from low-cost carriers. That is why Olympic Airways is turning itself into one

Get article background

EUROPE'S big airlines are beginning to see a spark of recovery after the air-travel slump caused by recession and September 11th. Air France was the harbinger when it reported January traffic fractionally higher than a year earlier and losses for the fourth quarter of 2001 that were lower than expected. Encouraged by this, it now intends to run as many flights this summer as it did in 2001. KLM is also stepping up its summer flights. These are the first signs that European carriers may restore the roughly 20% of capacity they cut to match the fall in traffic last autumn.

British Airways (BA) and Lufthansa are also seeing signs of recovery as load factors creep back. Lufthansa says its January traffic was 7.6% below a year earlier, which, given a 12% cut in capacity, means that its load factor and productivity have improved. “The winter is ending, the frost is melting”, says Wolfgang Mayrhuber, who runs Lufthansa's airline operations.

Lufthansa will decide over the next two weeks how much capacity it will restore this summer. It expects a gradual recovery in intercontinental traffic, though its European business (particularly in Germany) is not coming back as strongly. BA is in a different position, since its chief executive Rod Eddington is in the middle of a strategic shrinking of the airline not wholly connected with the crisis: BA is getting rid of 13,000 jobs and cutting 20% of capacity permanently to stem chronic losses.

This European pattern reflects what has been going on in America, where capacity is also rising again. The International Air Transport Association (IATA) notes that the monthly figures for international passenger traffic are beginning to resemble the very steep V-shaped recovery seen in 1991, when travel picked up rapidly after the firing stopped in the Gulf war. This confounds many predictions made last autumn that the current aviation crisis would last much longer. Nevertheless, the financial pain will linger, partly because fares have had to be slashed to bring passengers back. Austin Reid, chief executive of bmi British Midland, reckons the world's airlines will lose $7.5 billion this year on top of last year's $11

billion.

Back in September, Europe's airlines grounded aircraft, dropped flights and started cutting staff costs. Air France, for example, is shedding 2,000 jobs by not replacing employees who leave. Lufthansa took out 43 aircraft (15% of its fleet), froze recruiting and introduced short-time working for cabin attendants. “We didn't want to get rid of people,” says Mr Mayrhuber, “because we knew we would need them when the business came back.” Most airlines cut flights heavily on the transatlantic routes that were most affected by the drop in traffic (see chart); but they made up for this by running more flights to Africa, India and the Caribbean, where demand held up.

Air France and Lufthansa have also had some comfort closer to home, benefiting from the demise of Sabena and Swissair, which has left lots of lucrative long-haul traffic for them to pick up. Swiss travellers bound for the other side of the world now go through Paris, Munich or Frankfurt to get on to long-haul flights.

The next challenge

While Europe's flag carriers have been managing the worst crisis they have ever flown into, they have been distracted from another rising threat to their growth and profits. The low-cost carriers, led by Ryanair, easyJet and Go, are going from strength to strength. Ryanair, the largest with around 10m passengers last year, has just ordered up to 150 new Boeing 737s, more than tripling its fleet in order to cope with the boom. EasyJet is also about to buy up to 75 aircraft from Boeing or Airbus and talks of a fleet of 300 over ten years. Go, which was sold by BA, is also negotiating a huge aircraft purchase.

Keith McMullan, of Aviation Economics, a London consultancy, calculates that the low-cost carriers are growing at more than 25% a year (despite the crisis) compared with 4-5% (in normal times) for the European flag carriers. Assuming that half the low-cost carriers' growth comes from stimulating the market and half is captured from the big airlines, he reckons that the upstarts will grow from 10% of the European market today to around 33% by 2010. The stockmarkets are already anticipating this. Ryanair's capitalisation is now greater than BA's, following the trend in America, where Southwest Airlines, originator of today's low-cost business model, is worth more than the country's five top mainstream carriers added together.

Low-cost carriers depend for their success on much more than a simple, point-to-point service with no catering or other frills. Their yields are boosted by raising fares as advance bookings fill a flight; they dispense with travel agents and sell direct over the Internet. Ryanair and easyJet have 90% of their seats sold on the net, ten times the share of mainstream carriers. Not surprisingly, they each get a bum on a seat for one-tenth of what it costs BA.

The flag carriers have been trying various approaches to limit the damage. The first is simple denial. Air France, for instance, is using its political clout to keep easyJet from expanding at Paris Orly airport. Similarly, Lufthansa took Ryanair to court, trying to stop it from calling its German base Frankfurt-Hahn, because it is 60 miles from the city. Lufthansa says it can withstand low-cost competition since it has always faced lots of it from charter operators, which run semi-scheduled services from Germany. Mere bombast.

Beyond denial, there is do-it-yourself low-cost. Both BA and KLM formed their own low-cost carriers, known respectively as Go and Buzz. When Mr Eddington became chief executive he sold Go in a management buy-out for £100m, because he thought it was a distraction, earning a profit of £75m in the process. The latest convert to DIY low-cost is bmi British Midland, which later this month launches bmibaby (which sounds more like a 1960s pop hit than an airline).

Lufthansa briefly had a low-cost domestic service known as Lufthansa Express, but it was discontinued. The German carrier is now studying the low-cost business model closely, however, and this week Mr Mayrhuber refused to rule out the possibility that Lufthansa might start its own low-cost operation as an offshoot with a different brand identity.

The boldest mainstream response to the low-cost carriers is BA's. It is trying to match them, with a new simplified web booking system and simpler, lower fares which will reward early bookers, as low-cost carriers do. BA has yet to publish its new European short-haul fares, but the aim is to get them low enough so that business travellers, in particular, will be tempted to stick with the airline at Heathrow rather than go to a more distant airport for an even cheaper flight.

The low-cost carriers are no longer a distant threat: they are parking their planes on the flag carriers' tarmac. That is why Olympic Airways, the failing Greek flag carrier whose privatisation fell apart last month, has decided to switch sides and join the rebel upstarts. It is planning to scrap long-haul full-service routes altogether and reinvent itself as a low-cost carrier in south-east Europe, with the hope that it can then be sold off.

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ABB

Barnevik's bounty

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Scandal and poor performance have forced ABB to open up

FOR two torrid weeks, ABB has been fighting for its future. Its loss of $691m, announced on February 13th, left investors poring over the balance sheet of the Swiss-Swedish electrical and engineering group, fretting about its $4 billion of debt and anxious over its exposure to operating risks that have been poorly understood. The group's share price, already weak, has wobbled further (see chart).

Then came the embarrassing revelation that two former managers had walked away with pension and retirement benefits worth a combined SFr233m ($136m), by in effect taking advantage of the group's slack structure of corporate governance. On February 25th, Jürgen Dormann, ABB's chairman, announced sweeping changes to that structure. Once these are implemented, ABB says it will be as transparent and well-controlled as any big European company. The group also says it wants a lot of the pension money back. A protracted legal battle looms.

ABB's woes are rich in irony. One of the departing managers involved in the pension scandal was Percy Barnevik, architect of the merger that formed ABB, chief executive from 1988-96 and then chairman until last year. A self-proclaimed champion of corporate governance and once a hero in his native Sweden, Mr Barnevik is now reviled. His greed has focused attention not only on his record as a manager, but on rewards enjoyed by bosses in general.

Several big Swedish companies, such as Electrolux, have been moved to explain in detail the pension arrangements for their bosses. For instance, Michael Treschow, who is leaving his job as Electrolux's chief executive in April to become boss of Ericsson, has a pension pot of some SKr80m ($7.6m). The sum looks enormous, but the company points out that a big chunk of it comes from his previous employers. Such details have not altered the verdict of most Swedes: top managers are paid far too much.

A shocking fact about Mr Barnevik's pension scam is that it was not approved by ABB's board. ABB had no proper remuneration committee, and Mr Barnevik used executive fiat to push through the payments. Mr Dormann intends to bring in new directors and to get them more involved in the group's activities. Senior managers will also routinely attend board meetings, so that a full picture of the group can be more easily shared with directors.

This ought to be good news for investors. Under Jörgen Centermann, who became chief executive on January 1st last year, the group has begun a wrenching restructuring. Mr Centermann is dismantling Mr

Barnevik's model in favour of a more flexible culture—it is now clear that Mr Barnevik's model gave too much power to the man at the top. But the process of changing ABB has been proving difficult. Mr Centermann has often said he finds colleagues divided into those who respond to new ideas by asking “Why not?” and those who say “Yes, but...”. After recent events, fewer of the doubters will question the need for change.

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Japanese mergers

Marriage in name only

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Salarymen find it hard to shift their allegiance

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HERE is another reason why structural reform is hard for Japanese industry: employees are not good at transferring loyalty to a new company. Resentments between merger partners can fester for years. At Bank of Tokyo-Mitsubishi, formed in 1996 when Tokyo Bank merged with Mitsubishi Bank, a bigger but less prestigious institution, employees from Tokyo Bank were outnumbered three to one. Frustrated by Mitsubishi Bank's stodgy practices, many left; those that stayed were often sidelined. Insiders say there are still unofficial Tokyo Bank “societies” in which they air grievances to each other.

Nissan Motor, before its latest tie-up with Renault, a French car maker, was also legendary for bitter internal rivalries. In 1966, Nissan, then the second-biggest car company in Japan, merged with Prince Motor, the fourth-biggest. Hostilities between workers from Nissan and Prince lasted for years; even in the 1980s, older employees were still stamped with “Prince” or “Nissan” labels.

Nippon Steel, Japan's largest steel maker, had similar problems after it was formed in 1970 by a merger between Yawata Iron and Steel and Fuji Iron and Steel, even though the two had originally been part of the same company, Japan Iron and Steel, before it was broken up after the second world war. Nippon Steel is said to have kept separate personnel departments for the two sides for years. To this day, it scrupulously alternates its presidents between people of Yawata and Fuji origin.

Dai-Ichi Kangyo Bank (DKB), created in 1971, also kept two personnel departments for 20 years: one for former Dai-Ichi employees, another for ex-Nihon Kangyo folk. These days DKB is in a power struggle with its new partners, Fuji Bank and Industrial Bank of Japan, with which it has merged to create Mizuho Holdings, the world's largest bank. Employees at Mizuho complain that they get scolded for not fighting turf battles.

One reason why Japanese companies are prone to post-merger discord is their need to save face. Even when one is clearly stronger than the other, companies insist that theirs is a merger of equals. Preserving this balance creates false expectations. The latest example is the merger (due to take effect this autumn) between Japan Airlines, the top airline, with big domestic and international operations, and Japan Air System, which runs mostly domestic flights. Despite clear disparities in strength and size, both say the merger will happen in a “spirit of equality”.

The time it takes companies to iron out details of their mergers provides plenty of time for rancour. Unlike America or Europe, where mergers can be concluded within two or three months of announcement, Japanese ones may take two to three years. The final stage of Mizuho's merger will take place this April, two-and-a-half years after it was originally announced. The merger of Sumitomo Chemical and Mitsui Chemical, announced in late 2000, is due to take place in October 2003. The government, which is hoping that more face-saving mergers will help mask the lack of reform in sagging industries, might want to bear these lessons in mind.

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Microsoft

On the right track?

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The challenges facing the new judge in the antitrust case

COLLEEN KOLLAR-KOTELLY, the new judge in the Microsoft antitrust case, will need all her considerable experience to find a middle way between the two legal tracks that the case is now following. Track one, to culminate in a hearing on March 6th, is a judicial review of the November settlement that was reached between the Department of Justice, nine states and Microsoft. This is required by the 1974 Tunney Act to assess if the antitrust settlement is in the public interest. The second track, to reach court on March 11th, is litigation over the tougher remedies proposed by nine states that refused to sign the settlement. On February 27th Microsoft asked a judge to dismiss their case, arguing that states should not be allowed to set national competition policy.

The two tracks are distinct in more than mere procedure. They reflect opposing views about who has really won the case. To Charles James, head of the Justice Department's antitrust division, it is something of a draw. The appeals court considerably narrowed the lawsuit in its July ruling—upholding only the finding that Microsoft had illegally protected its Windows monopoly through several specific actions. After that ruling, Mr James argues that pressing the case any further would have involved years of costly litigation with an uncertain outcome.

The settlement negotiated by Mr James is essentially an arrangement that seeks to ensure that Microsoft sins no more. The firm is barred from retaliating against PC makers that install software which could weaken the Windows monopoly (called “middleware”, which includes web browsers and other Internet programs). And it must turn over the information needed to make such middleware inter-operable with Windows (called “application programming interfaces”, or APIs).

The states that have refused to settle have a completely different reading of the appeals court decision. To them the judges, known antitrust sceptics, unanimously confirmed the core of the complaint: that Microsoft had repeatedly abused its power to protect its monopoly. In particular, these states point out, the court found that Microsoft acted illegally when it mixed, or “co-mingled”, the software code for its Internet Explorer browser and Windows—because this deterred PC makers from installing Netscape's rival.

The nine state attorneys-general are proposing much tougher action against Microsoft. For a start, they want to discourage the firm from co-mingling code by forcing it to offer a cheaper version of Windows without middleware. In addition, so as to “deny the defendant the fruits of its statutory violation” (as the Supreme Court put it in another famous antitrust case), Microsoft should, for instance, be compelled to place its browser technology in the public domain.

Who is right? Most commentators on the settlement argue predictably enough. Pro-Microsoft industry groups such as the Association of Competitive Technology are in favour of the deal; the firm's competitors, such as AOL Time Warner or Sun Microsystems, are against. But there are a handful of more disinterested views of the settlement.

Perhaps most surprising is the commentary by Einer Elhauge, a Harvard law professor and co-author of a leading antitrust textbook, who describes himself as a “strong supporter” of the Bush administration and its antitrust division. The settlement, he writes, would “set a terrible precedent contrary to the public interest”, because it provides “largely meaningless enforcement” and fails to remedy the serious antitrust violations upheld by the appeals court. Above all, he notes, the agreement would do nothing to stop Microsoft from co-mingling its code.

Three noted economists—Robert Litan of Brookings Institution, Roger Noll of Stanford University and

William Nordhaus of Yale University—go even further. They argue that the settlement is flawed because it aims too low. “The proper goal should be to restore competition to the level that would have been achieved today in the absence of Microsoft's unlawful conduct.”

So far, Judge Kollar-Kotelly has blocked Microsoft's attempts to get her to rule on the settlement before judging the remedies proposed by the states—suggesting that she views the two tracks as parallel and will not just sign off on the deal. One thing seems certain, however: if her ruling limits Microsoft's sovereignty over Windows in any meaningful way, the company will take it to the Supreme Court.

Even if it can live with Judge Kollar-Kotelly's decision, Microsoft's legal woes are far from over. Another federal judge recently rejected its plan to settle more than 100 consumer class-action suits by donating $1m to poor schools. AOL Time Warner has sued Microsoft for damages done to Netscape, which is now owned by the media giant, as Sun might yet do over its programming language, Java. And the European Commission is shortly to rule whether the company has tried to extend its monopoly into the server and media-player markets. The commission has the power to levy a large fine. All of these tracks could just run and run.

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The Internet

ICANNOT

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Has self-regulation failed?

THE recession killed much of the fantasy of the new economy. Now another cyberdream might be coming to an end: that the Internet will give rise to consensus-based self-regulation and even a sort of global democracy. This was the goal of some enthusiasts when the Internet Corporation for Assigned Names and Numbers, or ICANN, was founded in October 1998 to oversee the Internet's domain-name system. To get input from web surfers, ICANN even organised the worldwide election of five of them to become board members in October 2000.

But the experiment has failed, argues Stuart Lynn, ICANN's chief executive. The organisation is wasting time in endless debates about process; it does not get things done; and it is in danger of becoming irrelevant, he says. If ICANN ever hopes to achieve its raison d'être—to get full control of domain names from the American government—the body has to get its act together.

To make ICANN more efficient, Mr Lynn wants nothing less than full-blown structural reform. His plan, submitted to the ICANN board on February 24th, proposes (among other things) to rid the board of representatives of Internet users. Instead, he says, it should include five members nominated by (perish the thought) governments. “It is strange that ICANN, which was created to save the Internet from governments, is now turning to governments to save it from the Internet,” says Michael Froomkin, a law professor at the University of Miami.

There is no question that ICANN needs fixing. But instead of involving governments, or asking for more cash, it should rethink its mission—cutting it down as much as possible to the technical aspects of running the domain-name system, leaving more political issues to other organisations. ICANN would then stand a much better chance of becoming a model for consensus-based self-regulation.

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Sexual discrimination

Women in suits

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America's rash of lawsuits on sexual discrimination is spreading to Europe

THE finance industry is renowned for its loutish behaviour, so it should come as no surprise that it seems to have more than its fair share of unsavoury practices against women. Last week, American Express, a travel and finance conglomerate, agreed to pay $31m to settle a lawsuit for sex and age discrimination filed on behalf of more than 4,000 women. Merrill Lynch and Salomon Smith Barney, two investment banks, settled two high-profile sex-discrimination cases a few years ago. Morgan Stanley, another investment bank, is in the throes of a similar lawsuit. And in January, Schroders' investment-banking unit, now part of Citigroup, was found guilty in a high-profile case of sex discrimination in London.

The Morgan Stanley and Schroders cases are similar in many ways, and they suggest that Europe may be following America's often flamboyant practices in such matters. Both cases involved women with high-flying careers that came to an abrupt end after their cases. The first concerned Allison Schieffelin, a corporate saleswoman with Morgan Stanley in New York, who was fired in October 2000 after a row with her boss. The other involved Julie Bower, an analyst with Schroders who was forced to resign in October 1999 after a series of clashes with senior managers. The two women sued their employers for sexual discrimination, in New York and London courts respectively.

The ways in which the two cases are being resolved reflect broader trends in American and European employment litigation. Ms Schieffelin's case is still pending in a federal court in New York, where it is now part of a “pattern and practice” lawsuit that the Equal Employment Opportunity Commission (EEOC), a federal agency that enforces American employment-discrimination law, filed against Morgan Stanley last September. It accuses the firm of discriminating against up to 100 women. In London, on the other hand, an employment tribunal awarded Ms Bower almost £1.5m ($2.1m), a record amount for a case of sex discrimination in Britain.

Lawsuits over sexual discrimination and sexual harassment (which is considered a form of sexual discrimination under American and English law) are still relatively rare in Europe. But as victims like Ms Bower receive higher compensation payments, the number of complaints is rising, and the range of protection against discrimination is increasing.

America's wave of litigation over sex and jobs began a decade ago after a single, high-profile case. In 1991, Anita Hill, a black law professor who had worked at the EEOC, accused her black former boss there, Clarence Thomas, who was undergoing Senate confirmation hearings for the Supreme Court, of sexual harassment. “Anita Hill was the turning point,” says Gerald Maatman at the Chicago office of Baker & McKenzie, a law firm. It heightened public awareness of the problem, and a deluge of suits followed.

Today, one in five civil lawsuits in America's federal courts concerns harassment or discrimination, compared with one in 20 a decade ago. More than 100 insurance firms in America now offer “employment practices liability insurance” (EPLI), which covers employers' legal costs, damages and settlements in lawsuits for discrimination and harassment.

Perhaps the most potent influence on the growth of litigation in America has been its workers' lack of job security. Most Americans are employed “at will”. This means that they can be fired at any time, and for any reason. Only around 10% of American workers have employment contracts that limit an employer's absolute right to sack them. Discrimination is the only aspect of employment law in which American workers have more rights than Europeans.

The way American employees wield clout is through their country's legal system. It allows class-action

lawsuits, in which hundreds of employees with similar complaints can jointly file a single claim. Damages are then awarded to the entire group. It also allows for punitive damages. The deeper a company's pockets, the greater the likelihood of a multi-million dollar award. For example, Mitsubishi, a Japanese car maker, paid $34m to settle a sexual harassment suit filed by the EEOC on behalf of a group of more than 300 female employees in 1998.

Life threatening

In recent years, judges have shown more sympathy towards employers who have made an effort to curb discrimination. In 1998, a ruling by the Supreme Court considerably strengthened the defence of employers in discrimination suits who “take proactive steps to control loss and manage risk”. This week, however, the Supreme Court voted unanimously to make it easier for employees who do not have direct evidence of discrimination at the time they file a lawsuit to bring a complaint against their employer.

Not all state courts apply the Supreme Court's 1998 decision. A court in Sacramento County, California, ruled in a sexual-harassment case last November that under state law employers are “strictly liable for the harassing conduct of supervisors”. But a few weeks ago, California's Supreme Court agreed to review that ruling in a case where the accused employer had comprehensive guidelines to deal with sexual harassment, but the victim of the harassment did not follow them.

After a decade of furious litigation, the tide in America now seems to be turning. But in Europe the number of cases is just picking up. Until recently, European employees sued employers relatively rarely—largely because they were afraid to do so, says Judi James, author of “Sex at Work”. European employees were unsure about what constituted discrimination or harassment, or what to do about it.

As awards get more generous, however, more are being encouraged to make claims. In Britain, for example, figures from the Employment Tribunals Service show that more than 130,000 claims of discrimination were lodged by British employees in 2000, three times the number ten years ago. That said, employment tribunals awarded a mere £1.8m in the same year for cases of sex discrimination—not much more than Ms Bower alone was awarded last month. Her case, like Anita Hill's a decade ago, is now likely to inspire other similar suits.

But going public with a claim is challenging, and many people will continue to be deterred by the consequences. Ms Schieffelin may yet get some compensation for the wrong that was allegedly done to her, and Ms Bower has won her case handsomely. But Ms Schieffelin has been out of work since she was fired, and Ms Bower has been unable to find a job since being forced to resign. She says that no firm in the City of London was prepared to employ somebody of her notoriety. Despite her legal victory, she says that her life has been ruined.

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Management appraisal

Head shunters

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With fewer executives to hire, head-hunters are looking for new roles

MOVING jobs is a risky business these days, and many head-hunters are twiddling their thumbs waiting for the telephone to ring. So some are beefing up a sideline that is less cyclical than hunting for new bosses. Korn/Ferry calls it strategic management assessment; others, like Egon Zehnder, call it talent appraisal, a term they think sounds less threatening. But all are doing much the same thing: offering to tell companies whether they have the right people doing the right jobs.

Companies specialising in psychological testing, such as Development Dimensions International and RHR International, have been doing this sort of thing for years. Of the search firms, Egon Zehnder was the first. Talent appraisal now accounts for roughly 15% of its total revenues.

The executive-search firms that are getting into the game boast that they have a special weapon: their knowledge of the quality of people available in the job market at large. Korn/Ferry has taken this benchmarking to greater lengths than most. It has a database of 800,000 executives around the world who have filed an online self-assessment, together with information on their salaries and education. It has hired a team from the Marshall School of Business to trawl through it and to map the competences of the top executives in various functions and industries.

Most companies call on these services in the throes of a merger or privatisation, or when a new chief executive arrives. Stora Enso, a large Finnish paper company, bought Consolidated Papers in Wisconsin a couple of years ago. Aulis Ansaharju, who came from Finland to review the managerial skills in the newly acquired company, called in Korn/Ferry to help, and it was the headhunters' American experience that proved most useful. “In choosing the right people for jobs,” recalls Mr Ansaharju, “they—as Americans—were able to make better judgments than we could. When we disagreed, I saw later that they were right.”

Reckitt Benckiser, a British household-products company, also used Korn/Ferry after the merger that created the company two years ago. But the advisers stayed on, to build an Internet-based system that gives the company a view of the skills and aspirations of managers in all 70 countries in which it operates. This system, says Steven Schrey, management development director, allows the company to run an internal search system of its own, and to spot when a manager may be ready for a move. More shunting than hunting?

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Face Value

A busy bee in the hamburger hive

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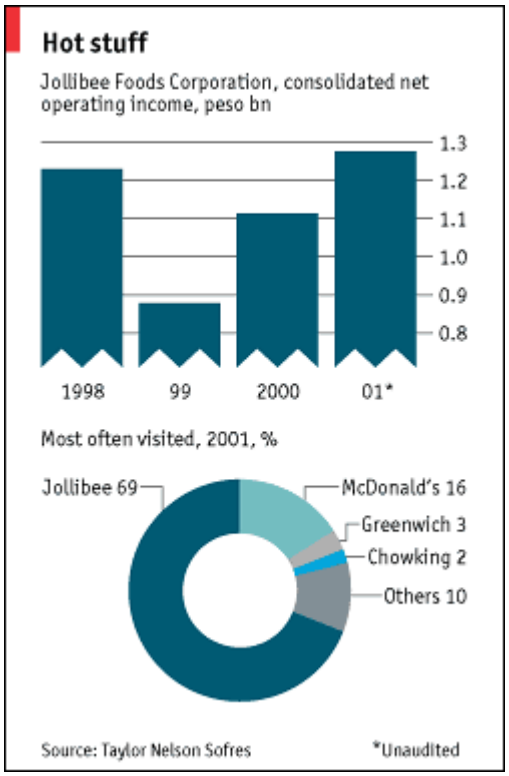
If McDonald's is the Goliath of fast food, Tony Tan's Jollibee is its Filipino David

THE Philippines is a huge embarrassment to McDonald's. Filipinos are as mad about American culture as they are about fast food, and in 1981, when the golden arches first went up in Manila, everybody assumed that McDonald's would rule the Filipino market, as so many others. At the time, Tony Tan was a local entrepreneur who, with his siblings, had just turned a few ice-cream parlours into burger kitchens. He was soon getting friendly advice that he was still young enough to do something else for a living. At best, said his friends, he could buy the McDonald's franchise.



Mr Tan did nothing of the sort. Instead, he chose to do battle with the invading global giant. And a strange thing happened. Within four years, Mr Tan's chain, Jollibee, had become the market leader. By the 1990s, Jollibee was trouncing its rival so thoroughly that McDonald's was forced to choose between retreat and imitation. McDonald's denies that it has opted for the latter, but that is how it looks—and tastes—to Filipinos. Even so, they continue to pass it by in favour of Jollibee (see chart). Other global heavyweights appear to have no hope whatever. Burger King's Filipino franchisee is trying to sell out but, after over a year, it is still looking for a buyer.

Like many successful entrepreneurs in the Philippines, Tony Tan is ethnically Chinese. His parents immigrated from Fujian, once one of China's poorest provinces, and his father made ends meet as a cook in a Chinese temple. Hanging round the kitchen early in his life, Mr Tan apparently developed unusually sensitive taste buds. A colleague considers them downright surreal. She remembers witnessing Mr Tan tasting a chicken and spotting a minor ingredient that he had noticed only once before—years ago, in a Chicago food stall—and which he at once set out to track down.

His palate, indeed, seems to have been Mr Tan's greatest source of confidence throughout his struggle against McDonald's. Modest in every other respect, he never once doubted that he could make better food—or at least “better” to Filipinos. To this day, he still attends the weekly three-hour meetings of Jollibee's “new products board”. The decisions made there find their way into “the commissariat”, a top-

secret spice kitchen and the nerve centre from which Jollibee outlets are supplied.

Describing Mr Tan's recipes is not easy. Generally speaking, the Philippines is not famous for its food, and cardiologists consider it downright evil. In their own kitchens, Filipinos tend to cook meat with stunning amounts of sugar and salt, and to soak it in *bagoong*, a sort of brine. But no matter how poor, they like to splash out every so often on fast food. And then they like burgers that are sweet and juicy, spaghetti that is saccharine and topped with hot dogs (no Italian would recognise it), beef with honey and rice, and, for dessert, variations on the mango theme. All this Jollibee provides, whereas McDonald's, perhaps hidebound by its global standards, never quite seems to get it right.

Nor is Ronald, the Americans' red-haired clown, any match for the jolly bee, a ubiquitous icon in the Philippines. The Tans chose the bee because they thought it epitomised the Filipino spirit of light-hearted, everyday happiness. Like Filipino working folk, explains Mr Tan, “the bee hops around and produces sweet things for life, and is happy even though it is busy.”

Indeed, the corporate jolliness is infectious, and as much a part of Mr Tan's success as his recipes. Jollibee's staff outsmile McDonald's by a huge stretch. This January, they started greeting customers with a gesture adopted from the sign language of the deaf—a vertical stroke for “bee” and hands shovelling towards the heart for “happy”—which kids have started using in playgrounds. Staff call customers and one another “sir” and “mom”, which is at once casual and respectful in the Philippines. From the cleaners to Mr Tan, who is not above dressing up as a rapper and doing an awful Puff Daddy imitation for the delight of his staff, everyone at Jollibee projects fun.

All this success does not seem to have gone to Mr Tan's head—yet. He refuses to say “I”, and habitually deflects credit to “us”, meaning siblings and colleagues. But success may be taking a different toll. Of late, Mr Tan has discovered global ambition. “It's on his mind all the time now,” says a colleague.

Goliath in the making?

The real reason why he did not bid for the McDonald's domestic franchise all those years ago, he now claims, was that he already envisioned expanding overseas. That may be true, but it would have been a remarkably long-term vision for a man who was, at the time, a small entrepreneur in a poor country. In any case, the expansion has certainly begun. Jollibee recently opened eight stores in California, and a few more across Asia. It had to close one in China, but it is now regrouping for another push. In time, Jollibee means to be everywhere.

So far, this has been a low-risk strategy, because Jollibee aims mostly at the diaspora of overseas Filipinos. But in order to go global, Mr Tan concedes, Jollibee soon has to break that Filipino link and reach out to other nationalities. As ever, though, he feels that he can, because “we have an edge over all the American brands in food”. His brothers and sisters on the board are less convinced. What an irony it would be if a Filipino David were to become vulnerable to the slings of Davids elsewhere.

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Bribery and business

The short arm of the law

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Plenty of laws exist to ban bribery by companies. But big multinationals continue to sidestep them with ease

NEW legislation has just come into force in Britain extending anti-bribery laws to cover British nationals and companies abroad. For the Americans it is none too soon. Anti-bribery legislation covering American citizens abroad has been in force for a quarter of a century, and the American government has been battling for some time to persuade Britain that it has been failing in its commitments under an OECD convention on bribery that it signed at the end of 1997. The convention, now signed by 35 countries, decrees that “enterprises should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business.” Anywhere.

The Americans claim that, so long as legislation elsewhere falls short of their own Foreign Corrupt Practices Act (FCPA) of 1977, they are at a disadvantage in bidding for international contracts. The FCPA outlaws the payment of bribes by American firms to foreign officials, political parties, party officials and candidates. The Department of Justice claims that, between early 1994 and early 2001, “the US government learned of significant allegations of bribery by foreign firms in over 400 competitions for international contracts valued at $200 billion. The practice is global in scope, with firms from over 50 countries implicated in offering bribes for contracts in over 100 buyer countries during the seven-year period.”

The implication is that American firms lost out as a result. That may be so. But in fact there is little to stop the subsidiaries of British or American companies from offering and accepting bribes in a host of countries that have not signed the OECD convention, and indeed in many that have. Some of the bribers referred to by the Department of Justice may actually have been subsidiaries of America's own multinationals. For there are holes in the anti-bribery laws that are big enough for a half-blind elephant to blunder through.

Mere facilitation

The FCPA applies to companies registered in America and to any foreign companies that are quoted on an American stock exchange. In 1998 the overseas coverage was extended to include bribery by foreign firms on American territory. It is also, in theory, possible (but it has scarcely ever happened in practice) that an American parent company could be held liable for the acts of foreign subsidiaries “where they authorised, directed or controlled the activity in question”.

The power of American legislation to bring charges for bribery by non-nationals is, however, negligible. John Mayo, a former finance director of GEC, a British defence group later renamed Marconi, wrote with

impunity in the *Financial Times* last year that “US acquisitions had to be made for cash as GEC was not compliant with the FCPA and so could not list in the US.”

The law against bribery abroad is rendered still more ineffective by the acceptance of what are known as “facilitation payments”. These are small payments made to expedite routine business needs—clearing customs, obtaining permits, and so on. BP and Unilever, two British multinationals that are quoted in America, admitted to a British parliamentary committee a year ago that they make facilitation payments. At the same time, BP professes that “we will never offer, solicit or accept a bribe in any form.”

Britain's Department of Trade and Industry concedes that there is no clear definition of a facilitation payment or of precisely how it differs from a bribe. An amendment to the FCPA specifically exempts “facilitating payments for routine governmental action” from the American definition of a bribe. Another not-very-thin end of the wedge.

An article in the *Vanderbilt Journal of Transnational Law* of November 1999, by Christopher Corr and Judd Lawler, reports on what “appears to be the first non-resident foreign national to be indicted for violating the FCPA”. The case involved the Dutch chairman of Saybolt North America Inc, an American subsidiary of a Dutch petroleum-inspection company. A $50,000 bribe had been paid in a Panama City bar to help the company secure a lease on a waterfront site adjoining the Panama Canal. The case was settled in August 1998.

Before that, all cases involving foreign payments had been brought only against American residents. And there were not too many of them, either. The application of the American legislation to quoted companies is the responsibility of the SEC. The Department of Justice oversees the rest. The SEC has brought only three cases involving bribes abroad in the first 20 years of the FCPA. The Department of Justice—armed, as the SEC puts it, “with the greater evidence-gathering tools available to criminal prosecutors”—brought all of 30 cases involving foreign bribery. That is a rate of 1.5 a year, surely a drop in the ocean.

The pace of prosecution is at least accelerating. The SEC settled three cases in 2001. One involved IBM Argentina, a wholly-owned subsidiary of the American computer giant, which paid some $4.5m in bribes to officials of Banco de la Nacion Argentina in order to win a contract to modernise the computer system of the government-owned bank.

On the surface, this looks like a breakthrough in the pursuit of subsidiaries of multinationals. But there are several things to dampen the enthusiasm of those battling against bribery. In the first place, it was IBM itself that discovered the bribes, and it was the IBM parent company that reported them to the SEC. The SEC ordered IBM to pay a civil penalty of a mere $300,000, in a year when its turnover was over $85 billion. This hardly amounts to a punishing deterrent. Moreover, had the Argentine bank been in the private sector (and not state-owned) it is not clear that IBM would have had to report the bribes to anybody, since the FCPA covers only payments made to public officials.

Present and correct

In another case, settled in September last year, the SEC also stumbled across bribes paid by Baker Hughes only because the American oil-and-gas technology company reported them. In this case, because of the “strong corrective action” taken by the company, the SEC did not impose any civil penalty at all. It is, however, pursuing Baker Hughes's Indonesian accounting firm, KPMG Siddharta Siddharta & Harsono, in its first-ever joint action with the Department of Justice. The Indonesian affiliate of KPMG is alleged to have been the conduit through which a $75,000 payment was funnelled to an Indonesian tax official in charge of a Baker Hughes tax assessment. This case could push the extraterritorial ambitions of the American authorities a bit further.

The new British law on bribery and corruption applies if “a national of the United Kingdom or a body incorporated under the law of any part of the United Kingdom does anything in a country or territory outside the United Kingdom.” A Home Office spokeswoman says that the legislation will apply “if there is conspiracy between a UK parent and a foreign subsidiary”. But this is nowhere spelt out in the three meagre sections of the Antiterrorism, Crime and Security Act 2001 that extend the bribery laws to non-nationals. British lawyers believe that any legal action taken over bribes paid by a foreign subsidiary of a British multinational would have to be pursued in the country of registration of that subsidiary.

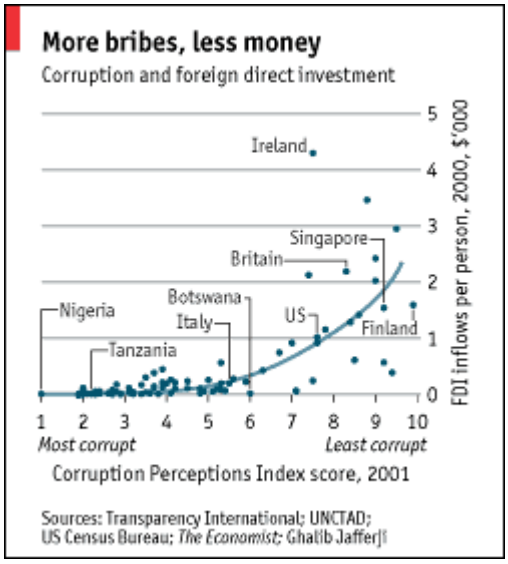
The government maintains, as it did to the aggrieved Americans before the new legislation came into force, that Britain's existing anti-bribery laws, dating back to 1889, are sufficient to deal with cases

involving foreigners. But if they are, they have yet to prove it. One British lawyer says that there has been only one successful prosecution for bribery of a public official in Britain in the past century, never mind a prosecution of anybody abroad.

Despite their records, Britain and America persist in trying to appear purer than each other in their pursuit of bribery overseas. Baroness Symons, a British foreign office minister, told a recent conference that “the UK has a strong reputation for honesty and integrity...we were one of the first countries in the world to introduce an anti-corruption law.”

To vindicate itself further, the British government likes to refer to the Bribe Payers Index, a measure devised by Transparency International, a Berlin-based non-governmental organisation devoted to combating corruption. The index ranks countries according to perceptions of how corrupt they and their companies are, and the British authorities eagerly point out that Britain is ranked as the second least corrupt among the G7 countries (after Canada)—ie, it comes above the United States.

In the latest ranking, Britain comes 13th, with America in 16th place. Italy (at 29th) is the lowest of the G7 countries, beaten by (among others) Botswana, Chile and Estonia (see chart). This suggests that the biggest and most prevalent bribes are not necessarily always paid by or in the poorest countries. Bottom of the heap is Nigeria, a place where, it is widely acknowledged, bribery has become endemic.



Shell game

Nigeria is also a big oil producer and home to large subsidiaries of foreign multinationals such as BP, Shell and Standard Chartered Bank. Shell is often held up as a paragon of virtue in its treatment of bribery. Baroness Symons recently cited the company as an exemplar of British cleanliness in this matter. The Shell report for 2000 proclaims that “we are a ‘no bribes', fair competition business”; it also publishes a chart of the internal reported cases of bribery in recent years. This is promoted as pioneering stuff. No other large public company seems to do the same.

The Shell chart shows no reported cases in 2000 of “bribes offered and/or paid by Shell company employees directly or indirectly to third parties”. In 1999 there was one case (of a bribe of $300)—exactly the same number and amount as in 1998. The company also says that in 2000 “Shell companies reported four instances in which a total of seven employees were detected soliciting/accepting bribes directly or indirectly. The total financial value was estimated to be $89,000. All seven employees were dismissed.”

The reference to “Shell companies” implies that these figures cover all companies in the group, including the hundreds of subsidiaries that operate in the 135 countries in which Shell has a presence. The extraordinary low numbers in the chart have been questioned by several people who have worked with or for Shell in Nigeria. Either the company's internal investigation and reporting systems are inadequate, they allege, or the figures are being economical with the truth.

Their suggestions are reinforced by the fact that the Shell chart covers a period when the notoriously corrupt Sani Abacha was in power in Nigeria (he died in 1998). When the Nigerians appointed a former staff member of Transparency International to look into bribery during that time, he decided that only the biggest offenders should be prosecuted. Punishing everybody would have meant sacking almost the entire civil service, bringing government to a standstill. Yet despite such prevalence of bribery, in 1998 Shell's internal systems threw up only one small bribe paid by any of its thousands of staff.

How widespread is the problem of bribery? There is some evidence that the practice is growing. Friends

Ivory & Sime (FIS) is a large British fund manager which, as part of its policy on corporate governance, “seeks to support and encourage companies in their efforts to manage significant risks, such as those arising from bribery and corruption.” Those risks, it believes, are increasing.

FIS has just published a report on a survey of 82 large quoted companies in 12 countries, all companies in which FIS invests. The survey sought to find out what were the companies' policies towards bribery, and what systems they had in place to deal with it. FIS maintains that corruption is an issue that is all too rarely probed by investors. Like managers, investors are often equivocal about the impact on their organisation's bottom line. Many believe that in large parts of the world a company that does not pay bribes does not do business.

But it ain't necessarily so. United Technologies, an American conglomerate that makes Otis lifts, Sikorsky helicopters and Pratt & Whitney engines, once fired the president of a foreign subsidiary for making gifts to officials in violation of the FCPA. After the firing, said the head of the American parent company, “market share and profitability stayed up and even increased in one of the more notorious problem countries.”

In any case, as Shell puts it, “bribery drives up prices for products and services”. One World Bank report estimates that bribes in Uganda increase companies' overall costs by 8%. Some of those costs will eat into profits: even if a single company gains from paying a bribe, collectively, companies (and shareholders) will lose. Bribery is also bad for the economic health of countries. And it is their economic health that most affects the long-run ability of companies to increase profits.

The World Bank's latest *World Development Report* says that “it is now widely accepted that corruption has large costs for economic development. Across countries there is strong evidence that higher levels of corruption are associated with lower growth and lower levels of per capita income.” For sound economic reasons, foreign investors and international aid agencies are increasingly taking the level of bribery and corruption into account in their investment and lending.

Walls of silence

The first disturbing finding of the FIS survey is that 33% of the respondents chose not to answer the questionnaire at all. As an investor, FIS finds their silence less than golden. Of those that did reply, FIS says “a large proportion appear to have inadequate policies and implementation mechanisms.” One company, for example, does not allow its employees to accept bribes, but it does allow them to give bribes.

FIS says that poor implementation means, among other things, not having “clear lines of accountability from the board downwards”. Very few companies give clear advice about the steps people should take to report suspected cases of corruption. Shell produces a 56-page management primer, “Dealing with Bribery and Corruption”, written with the help of KPMG's Ethics and Integrity Consulting Unit—the same KPMG whose Indonesian affiliate is currently being pursued by the SEC and the Department of Justice for passing bribes on behalf of Baker Hughes. The Shell document is an interesting history of anti-bribery legislation and of the philosophical dilemmas behind it. But it is not bursting with telephone numbers and e-mail addresses of people to contact when a dilemma slaps a puzzled expatriate manager in the face.

When allegations of bribery come from outside, they often face a wall of silence as a company closes up to protect its own. Take the case of Jarrn Tankers & Trucking, once a supplier to BP Tanzania. Set up by Robert Satchwell, a former British Treasury official, to be a “clean” company, Jarrn's contract with BP was, in effect, terminated at short notice in 1999. Jarrn alleges that this happened because it refused to pay the bribes that were demanded by the oil company's local employees.

BP has conducted three investigations into the matter. Each one has come under the control of BP's Africa division, and each has avoided investigating Mr Satchwell's specific allegations: allegations that are, moreover, supported by sworn statements from four independent outsiders. The tenacious Mr Satchwell has persisted in demanding an independent inquiry, and in October 2001 BP at last set up an inquiry team with outsiders, including a former British fraud-squad officer. The team has visited Tanzania but has not yet presented its findings.

Bribery is often a means for companies to circumvent health and safety regulations

The BP case highlights another good reason for coming down hard on bribery. It is often a means for companies to circumvent health and safety regulations. In October 2000, a local newspaper reported finding that “80% of trucks using Tanzanian trunk roads and carrying transit cargo were overloaded, but proceeded to their destinations unchecked after money changed hands.” Mr Satchwell's trucks delivered BP aviation fuel to Kilimanjaro International airport. Any suggestion that these unexploded bombs are short-circuiting safety regulations should be a matter of the very highest priority to BP. Mr Satchwell has written about this matter on five different occasions to all of the non-executive directors of BP. They have not sent him a single reply.

Pursuing cases involving bribery overseas is not easy. Even Finland, which has headed Transparency International's list for the past two years, and is also the most advanced in implementing the OECD convention, has yet to bring a single criminal case involving the bribery of a foreign public official. Mark Pieth, professor of criminal law at the University of Basel and chairman of the OECD working group on bribery in international business transactions, wrote recently that the further pursuit of corporate bribery “will require prosecutors to take a fresh look at the behaviour of their highly respected local companies when operating outside their home market. And this will involve a reappraisal of investigative techniques, in particular with regard to the collection of evidence from abroad.”

In the meantime, multinationals have been left pretty much to their own devices. A few have taken serious steps to stamp out bribery—Procter & Gamble even closed a Pampers plant in Nigeria rather than pay a bribe to a customs inspector. Many more, however, have merely pretended to stamp it out. Companies that are serious about implementing a “no bribery” policy need to do a lot more than just pontificate about the evils of corruption and ask managers to fill in a form once a year .

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American International Group

Shine a light

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From The Economist print edition

Can the world's biggest insurer continue with its old, inscrutable ways?

HE MAY remain chief executive of AIG for the rest of this year—and quite possibly next year, the one after, and the one after that. Even Maurice ("Hank") Greenberg, at 76, would admit, though, that actuarial tables point to a shorter career in front of him than behind. Rumours about Mr Greenberg's health raced through the insurance world last week, in true Kremlin-watching style, after he failed to make a rare scheduled appearance at an insurers' annual get-together in Bermuda. His absence, said his deputies, was merely a case of the flu, but worried investors sent AIG's share price down. Even after a tanned and rested Mr Greenberg was hauled before analysts and hacks for a body check on February 25th—he was not ill, he insisted, but merely contemptuous of the Bermuda get-together's intellectual content—the share price barely recovered. As it happens, the old king has failed publicly to anoint a successor.

Concern about Mr Greenberg comes at an awkward time for AIG. It has the largest share of America's commercial market and 85,000 employees, in 300 divisions, working around the world. September 11th created new levels of uncertainty for the group, even though in the long run it should help to boost demand for insurance. Then came Enron's collapse, which raised a whole raft of concerns about corporate America: conflicts of interest on Wall Street, impenetrable accounting, the offshore registration of corporate vehicles, large financial exposures, unhealthy deference given to celebrity chief executives, and high share valuations. Every one of these concerns is germane to AIG.

AIG has a stockmarket valuation of $190 billion, making it second among financial companies only to Citigroup's $225 billion. Some 17 years of rising profits have earned the company respect from investors. Now caution is creeping in. Can AIG perform in a more volatile world as well as it has in the past? Is there a cohesive picture of what AIG does? Do Wall Street analysts offer an impartial picture of AIG's prospects, given that their banks take in and invest billions of dollars in insurance premiums from the company?

The insurer certainly uses its muscle to shape how markets perceive it. Ask somebody in the insurance world for his candid view of AIG, and he looks palpably uncomfortable. Mr Greenberg's charm often disarms, but he can terrify too. Share analysts foolish enough to issue a critical comment about AIG get a blistering phone call. If they are unlucky, they hear the criticism second-hand, from their irate boss. Mr Greenberg says he complains only when the facts are wrong, but he cannot recall a critical report where the facts were right. The company's share price has fallen by 30% since late 2000, yet no analyst, according to First Call, has rated it a "sell".

On valuation grounds alone, the faith placed by investors in AIG invites scepticism. Consider some analysis done for *The Economist* by Seabury Insurance Capital, a financial-advisory firm in New York. It looked at each of AIG's main businesses: life insurance, property-and-casualty insurance, asset management and a catch-all called financial products, which includes the world's biggest aircraft-leasing business. Each business was compared with the best in its field, or, in the case of financial products, with a hybrid of various top competitors. A composite valuation was then reached. (Click here to download Seabury's full analysis.)

The result: if AIG were valued in line with its best competitors, its stockmarket capitalisation would be

almost $100 billion lower than it is. If AIG were compared with insurers of similar size and financial strength, the disparity would be even greater: $120 billion. For that to be justified, AIG's profits would have to grow almost two-thirds faster each year than similar companies, for at least the next 25 years.

To justify such investor confidence, you might also assume that unusual clarity prevails about AIG's operations, accounting and prospects. The opposite is true. Few large companies are more inscrutable than Mr Greenberg's.

Black hole at the heart

On the face of it, AIG appears a quintessential American corporation. A skyscraper in lower Manhattan serves as its headquarters. Its board is stuffed with the great and good who have represented America abroad: Barber Conable, former congressman and president of the World Bank, Carla Hills, a former trade representative, and Richard Holbrooke, recently United Nations ambassador. The company's interests are often advanced by the White House itself, most recently in China, whose accession to the World Trade Organisation was complicated at the last minute by European resentment of AIG's uniquely granted right to have a wholly-owned subsidiary there.

In another way, it is not clear that AIG is an American company at all. On top of many subsidiaries in countries where the company sells insurance, more than 50 AIG entities, many with global reach, are registered in Bermuda. A principle of America's securities law is disclosure, including of corporate control and executive pay. According to AIG's proxy statement, the only block of shares of more than 5% of the company is a 14% stake, worth $26 billion, the ownership of which is impenetrable. This stake plays a crucial role at AIG in both compensation and control.

The owner of the block is recorded as Starr International, a private company named after Cornelius Vander Starr, who in 1919 founded the group in Shanghai. Starr International is a private company funded, in what Mr Greenberg calls an unprecedented act of generosity, by the eight shareholders who owned AIG when it went public in 1970. They put up $120m in AIG shares—the difference between their book value and the offer price.

Some 800 AIG managers now own Starr. AIG's proxy gives its home as a Bermuda post-office box, yet according to the company's thin file in Bermuda's registry, the true home is another box, this time in Panama. In other words, the ownership structure of America's second-largest financial institution is, for all practical purposes, immune to many aspects of American law and taxation.

King Hank, fit and rested

The routine public filings that AIG posts with American regulators are widely considered to be unfathomable. When challenged, AIG notes that it provides abundant disclosure, including 40 pages of densely written footnotes in its most recent annual report, as well as extraordinarily detailed statements with the Securities and Exchange Commission. But while the company provides great gobs of information, it is all but impossible to put them together. While AIG boasts of its dominance in various business lines and countries, it discloses only the broadest loss ratios. A source of its resilience is a willingness to reinsure about one-quarter of its underwriting, so spreading risk, but no outsider knows what business it keeps and what it cedes. Plenty of opportunity exists, if not for creative accounting, then certainly for inscrutability.

Part of the recent fall in AIG's share price can presumably be explained by suspicions about sophisticated but opaque forms of financial engineering. The insurer was hit with a $69m loss linked to Enron, and it is now at the centre of a dispute over off-balance-sheet partnerships held by PNC Financial, a regional American bank. AIG is a large and growing participant in complex derivatives markets. It says that derivatives play an important part in reducing the company's overall risk. From the outside, all that is clear is that AIG's credit exposure to derivatives is rising, from $17 billion in 1999 to $33 billion in 2000, according to the most recent annual report. Gross exposure has grown from $435 billion to $544 billion.

Any cracks in the confidence that AIG knows what it is doing in derivatives would be highly damaging. The company has a triple-A rating from Standard & Poor's, in part because a conventional analysis of its balance sheet shows AIG to be well-capitalised. A top-notch credit rating counts for much, particularly in skittish markets like Japan, where local insurers are chronically weak. A good rating gives AIG a low cost of funding. So it is a concern that recent volatility in AIG's share price probably lowers other, quantitative

ratings that rely more on market data.

Brand values

So how does AIG make money? If it has a brand identity, it is one better known among investors than customers. Indeed, AIG operates under a welter of names: Lexington, National Union, Audubon Indemnity, United Guaranty, Société Anonyme d'Intermédiares Luxembourgeois, and so on.

The common thread is an aggressive approach. AIG is known as an intense meritocracy, filled with people who come in early and leave late. Base pay is low, but bonuses are tied to the company's share price, which everybody at AIG seems to know at any time of the day. Every department must present an annual budget to Mr Greenberg himself. The scrutiny is brutal. Managers have been known to ask for lower spending limits—in the hope of making planned returns—only to have their requests rejected. Corporate intelligence, too, is viewed as high art. Mr Greenberg himself calls employees at every level to keep tabs on his own company. Often, AIG appears to have better information about the workings of other companies than the companies have themselves.

Prized employees are tied in with compensation agreements that pay out chiefly at career's end. Millionaires among senior management are commonplace; there are billionaires as well. Corporate notions of loyalty to staff are strong. Stories circulate of Mr Greenberg's own aircraft being sent to bring sick employees for care at New York-Presbyterian hospital (home to the Greenberg wing), and of his secretary evacuated from Lebanon in the midst of war. Headhunters say that AIG employees are reluctant to get in touch, partly for fear of being fingered as disloyal.

For some, nothing can compensate for Mr Greenberg's demands. Among those who have left are his sons, Jeffrey, now chairman of Marsh & McLennan, a giant insurance broker, and Evan, in charge of reinsurance for Ace, a fast-growing company based in Bermuda. Both were, at different times, considered Mr Greenberg's heir-apparent. Mr Greenberg says only that there is a plan for a successor; that he prefers him to be an insider; and that people should stop asking questions.

It is a heated environment, in which opportunities are grabbed quickly. AIG sells all the common insurance products, but it is best known for specialised insurance, including policies for corporate directors and executives, for political risk and for oil rigs—the difficult markets, in other words, that Lloyd's of London once dominated. Its response to disasters puts competitors to shame. The destruction of the World Trade Centre cost AIG more than $800m in claims. Within days, however, it had arranged a $500m insurance line for foreign airlines that desperately needed coverage if they were to continue to fly. As well as being fast, AIG is efficient, with operating costs a quarter below the industry average. That allows it to make what few other underwriters can: a profit before adding investment income.

The flipside of AIG's reputation is the firm's sharp edge, most evident in its treatment of claims. Many insurance brokers contend that good customers justifiably pay more to buy insurance elsewhere. Fighting AIG is not easy. Almost all the big law firms count the company as a valuable client, and so cannot easily represent plaintiffs. Mr Greenberg rebuts the criticism. “We would not be the biggest if we failed to pay,” he says.

Playing hardball often works in insurance, but it has drawbacks elsewhere. Last year AIG escaped paying out on a financial guarantee, worth $182m, for a series of Hollywood films, a decision that caused one of the rare defaults of a security rated triple-A. The convention in the world of financial guarantees, just as for bank letters of credit, is to pay first, and sue later. As a result, says a participant, AIG is largely locked out of these markets.

At least for now. AIG is hardly inflexible: just look at Mr Greenberg's swift response to the rumours about his own impending demise. Now, AIG promises quarterly conference calls, between Mr Greenberg and analysts and investors, to discuss profits and give more detail on each of the insurance operations, rather than just issue brief releases. Investors will get a day each year to meet managers at AIG. Reassurances, sure. However, AIG has yet publicly to anoint a successor, clear up its overseas registrations, find a way to provide confidence in accounting for derivatives, and persuade investors it is properly scrutinised by regulators. In short, it has yet to give up being AIG.

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International accounting standards

The impossible dream

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International accounting standards are trying to cross the Atlantic

WHY won't America recognise international accounting standards? This is the question that Frits Bolkestein, commissioner for the European Union's single market, plans to put to the Securities and Exchange Commission in May. Although America has long promised to allow foreign companies into its capital markets if they prepare their accounts according to international rules, it has not yet delivered. To list their shares on the New York Stock Exchange or elsewhere, overseas companies must still produce a reconciliation to America's generally accepted accounting principles (GAAP).

Credibility in America matters to the International Accounting Standards Board (IASB), a London-based private body that is responsible for devising international standards. If it cannot get the world's biggest capital market to respect its rules, companies will be less inclined to follow them. Worse, they might, like DaimlerChrysler, decide to submit GAAP accounts and bypass international standards altogether. Although the IASB may lay down any rules it likes, it has no power to enforce them. The body was made to look especially weak recently, when Senator Carl Levin published an e-mail from Enron, the collapsed energy-trading company, suggesting that its executives expected to be able to pay for influence over the IASB's standards.

Ed Jenkins, chairman of the Financial Accounting Standards Board (FASB), the GAAP standard-setter, argues that international standards are less comprehensive than GAAP. America relies less on broad principles than on detailed and prescriptive rules. The IASB inherited its standards from the IASC, a body set up in 1973 that had to take into account all the views of the many countries represented on its board. Because the IASC could not get everybody to agree, many standards allow different accounting treatments. Companies may either expense interest costs linked to construction or capitalise them, for instance. Another problem is the uneven way that standards are applied.

The IASB believes that the furore surrounding the bankruptcy of Enron should give it more of a hearing in America. International rules would have forced it to report more about its special-purpose vehicles, and Harvey Pitt, the head of the SEC, has criticised the FASB for taking too long over its decisions. That all European-listed companies will have to use international accounting standards by 2005 is another boost. The IASB has begun the process of improving its standards, some of which it admits are flawed.

All might be well if Sir David Tweedie, head of the IASB, had not chosen the thorniest issue of all as one of the board's top priorities. Last year the IASB announced that it would look at how to account for share-based pay. Sir David wants to require companies to treat stock options for employees as an expense. A draft standard is expected this autumn. Already, objections are rolling in, from Michael Oxley, who chairs the House of Representatives committee on financial services, and from American companies. Last week the European Commission wrote to the IASB to point out that it will take a long time to reach agreement on the issue.

This fight may prove too fierce even for Sir David, already unpopular among company bosses in Britain for making them account for shortfalls in their pension funds. European executives will complain that expensing stock options when the Americans do not have to would put them at a competitive disadvantage.

Pressure will no doubt be applied to the European Financial Reporting Advisory Group, whose job it is to make sure that IASB standards are consistent with the “European public good”. In America, FASB lost its fight to do the right thing on stock options when Congress threatened to remove its standard-setting powers. If the IASB manages to get any further, says Mr Jenkins, its American counterpart will take the opportunity to look again at its own rules on share-based pay.

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Banks' contingent liabilities

Holding the bag?

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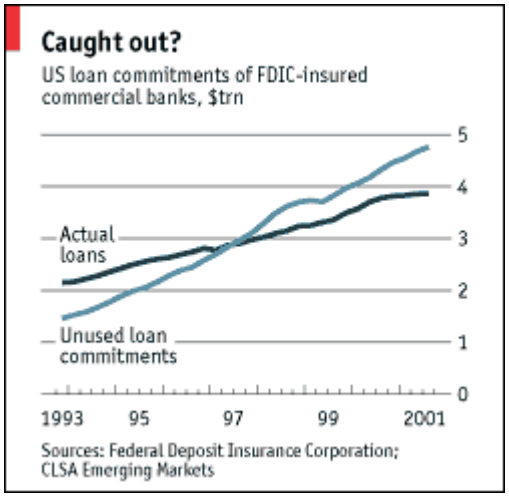
Bankers forced to go where credit markets fear to tread

SPARE a thought for today's corporate outcasts in unloved industries, plagued by a host of perceived risks and shunned by capital markets. An increasing number find themselves unable to raise the funds they need to do an honest day's work. So to whom did a string of American firms, from Xerox to Tyco to Qwest, recently turn when they found themselves ostracised by the market for short-term commercial paper? To the buttoned-down banking giants, of course.

As the economy boomed, banks pledged to help their clients by promising to lend cheaply in times of need—specifically, in the scarcely imaginable event that companies were shut out by the changing whims of the commercial-paper market. Over the years capital markets have taken over from traditional bank lending as a source of funds. But banks were happy to pledge back-up credit lines as a perk to attract lucrative investment-banking deals and other pricey services. Now, with a much weaker economy—and a jittery bond market after Enron's collapse—banks are wondering whether they made too many promises, too cheaply.

Christopher Wood, a strategist at CLSA Emerging Markets, a subsidiary of Crédit Lyonnais, points out that growth in American banks' unused loan commitments has outpaced growth in actual lending, rising to $4.8 trillion last year, nearly one-quarter more than the $3.9 trillion of total loans outstanding (see chart). Should the recent trickle of companies seeking to tap their credit lines become a flood, these commitments could become unpleasant for banks. They may, in effect, become lenders of last resort, but at prices that hardly reflect the financial distress of their clients—or the risks to themselves.



Big banks such as J.P. Morgan Chase—which, according to Loan Pricing Corporation, was the biggest arranger of credit lines last year—are sophisticated enough. Typically, they lay off around nine-tenths of credit lines to other syndicate members, according to Ray Soifer of Soifer Consulting, or in the market for credit derivatives. This is where the real problem may lie, however, for smaller banks may be less adept at managing unanticipated risks. Derivatives counterparties may have expected easy money too.

So far, credit lines have not turned out to be ruinous. Still, banks feel that they are not being paid enough to provide credit at their customers' moment of greatest pain. When the credit lines were negotiated during the boom years, interest rates were set at a thin spread above the benchmark corporate-lending rate—not enough for the risks they now face. For instance, Tyco, an American conglomerate, unexpectedly drew down $14.4 billion in credit lines in February, after being shut out from the commercial-paper market when investors began to doubt its accounting. If back-up credit lines could be priced to reflect the riskiness of loans and the cost to banks' balance sheets, then banks might yet make money out of them. Already, the cost of new credit lines is rising.

The rush to tap back-up credit lines highlights a longer-running debate in investment banking: does size matter? Large commercial banks with investment-banking aspirations, such as J.P Morgan Chase and Citigroup, contend that their big balance sheets allow them to offer clients an irresistible soup-to-nuts menu. Wall Street securities firms, such as Goldman Sachs and Morgan Stanley, have long argued that credit is a mere commodity that need not be provided in-house. A measure of smugness colours that

argument now.

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Swiss corporate governance

Rotten apples

Feb 28th 2002
From The Economist print edition

Top departures suggest more problems at Switzerland Inc

TWO more resignations of chief executives this week highlight the impatience of shareholders, non-executive board members and supervisors over the way some of Switzerland's biggest companies are run. But the continuance, after his resignation, of one as non-executive chairman highlights how narrowly the shareholders' writ runs.

On February 27th Manfred Zobl, chief executive of Swiss Life, a big insurer, was forced by his managing board to quit by the end of the week. In January the firm said it would not pay a dividend and would reduce costs by one-fifth, but that failed to reassure investors. Two days before Mr Zobl's resignation, Rolf Hüppi, head of Zurich Financial Services, an even bigger insurance group, announced he would quit as chief executive by mid-year. His critics wondered what had taken so long. Last year Zurich issued four profit warnings, and its shares lost almost two-thirds of their value. Amazingly, Mr Hüppi continues as chairman. It is hard to imagine how such a forceful character will let his as-yet-unnamed successor get on with picking up the pieces at Zurich.

All this after a row earlier in February about the cavalier use of shareholders' funds by ABB, a Swiss-Swedish engineering firm, which gave its outgoing chairman, Percy Barnevik, a *euro*100m ($86m) pension; and after shenanigans last year surrounding the bankruptcy and rescue of Swissair, the national airline. Marcel Ospel, the supposedly non-executive chairman of UBS, Switzerland's biggest bank, was roasted by regulators for committing the bank's funds to a Swissair rescue before consulting his executive board.

It adds up to a country whose creaky structure of corporate governance can hardly accommodate its big companies, under pressure to run along more Anglo-Saxon lines. A real problem in Switzerland is the dearth of high-calibre people to choose as possible non-executive directors. Weak boards get steam-rollered by domineering chief executives—or even by non-executive chairmen.

The quick fix has apparently been to appoint alumni of McKinsey, a consulting firm, to run the shop. Lukas Mühlemann has run Credit Suisse, the country's second-biggest bank, since 1997, though for how much longer is unclear. Peter Wuffli was appointed chief executive of UBS in December, after its corporate-governance debacle. This week Swiss Life appointed another former McKinsey man, Roland Chlapowski, as Mr Zobl's successor. Zurich's share price rose on the news of Mr Hüppi's departure, then sank again over uncertainties about the succession. Who then will dare to stand in line? A few McKinsey alumni may understandably be dusting off their résumés.

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About sponsorship

Matsui Securities

No marginal business

Feb 28th 2002 | TOKYO
From The Economist print edition

A successful online broker in Japan?

TO LOOK at Matsui Securities, Japan's leading online broker, it is hard to believe that stockmarkets are tumbling and the economy sagging. In the nine months to end-December, its pre-tax profits went up 51% year-on-year. During the same period, pre-tax profits at Nomura Holdings and Daiwa Securities, the two biggest stockbroking firms, dropped by 66% and 93% respectively. The third-biggest, Nikko Cordial, lost money.

Matsui is an 84-year-old family business with just over 200 employees, compared with 10,000 at the industry giants. It has already won the biggest share of the online share-trading market by value, with a quarter of the ¥11 trillion ($82 billion) market. When it comes to margin trading, where individuals trade securities on credit, it beats even Nomura.

Why, when so many brokers are struggling to make profits, is Matsui doing so well? Credit goes to Michio Matsui, the 48-year-old who heads the company. Born Michio Mutai, he worked for over a decade at Nippon Yusen, Japan's largest shipping company. He then married Chizuko Matsui, the boss's daughter. A year later, he changed his name to Matsui, joined the family business and soon became a director of sales. He put forward a plan to cut costs and transform Matsui from a stodgy, old-fashioned stockbroking firm into a discount stockbroker. By the time he was made president in 1995, he had closed all the branch offices and done away with the 70-strong sales force.

Mr Matsui says he was able to anticipate the need to slim down earlier than other brokers, who are only now trying to cut costs, thanks to his experience at Nippon Yusen. During his years there, the shipping industry was deregulated and exposed to international competition. Mr Matsui predicted that the securities industry would face similar changes and made preparations accordingly. He was right: in the late 1990s, equity commissions were deregulated, leading to intense competition. By then, Mr Matsui was already moving ahead, latching on to the Internet as the next step forward.

Today, Matsui's low-cost base enables it to offer an unusual “box-rate” commission structure, through which customers can make an unlimited number of trades, of up to ¥3m a day, for a fixed rate of ¥3,000. Mr Matsui reckons the big brokerages, which are struggling to remain profitable despite charging higher rates, will have a hard time trying to match Matsui's low commissions.

Meanwhile, Matsui's rates have helped to attract customers who like to trade early and often. They are the best sort of customers in a downturn, since, unlike novices, they are less likely to be repelled by stockmarkets just because they are falling. Mr Matsui has pulled in this kind of customer because, he thinks, he understands why they buy and sell so quickly. Long-term equity investments do not appeal when stockmarkets have dropped to a fraction of their level 12 years ago. Poor disclosure still leads to nasty surprises for shareholders. The worsening recession also means that shares rarely offer chunky dividends. No wonder, he says, that investors are quick to take profits or to cut losses.

Matsui's decades of experience help to differentiate it from other young online broking companies. It also gives Matsui an edge over foreign competitors. These, Mr Matsui believes, simply do not understand Japan's retail securities market, where most household wealth is in the hands of people over 50. “It's not the young people drinking Starbucks that brokers should be targeting, it is older people who drink green tea,” he says.

Most of Matsui's customers are indeed over 50. A quarter of them are also active margin traders, creating a lucrative business for Matsui, which borrows at 0.6% and lends at 2.1%. Ned Akov of ING Barings, a Dutch bank in Tokyo, believes that for the next three years there is room for double-digit growth in

Matsui's online margin accounts, since it so far controls only a small fraction of what is still a fragmented market.

Meanwhile, Mr Matsui shrugs off concerns that his profit margins might be hurt come the day, hard to imagine now, when Japan's low interest rates start to climb. “We'll just raise our rates too. These are customers who buy today to make profits tomorrow. Do you think they care about interest rates?”

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Tobacco and taxes

Smoke alarm

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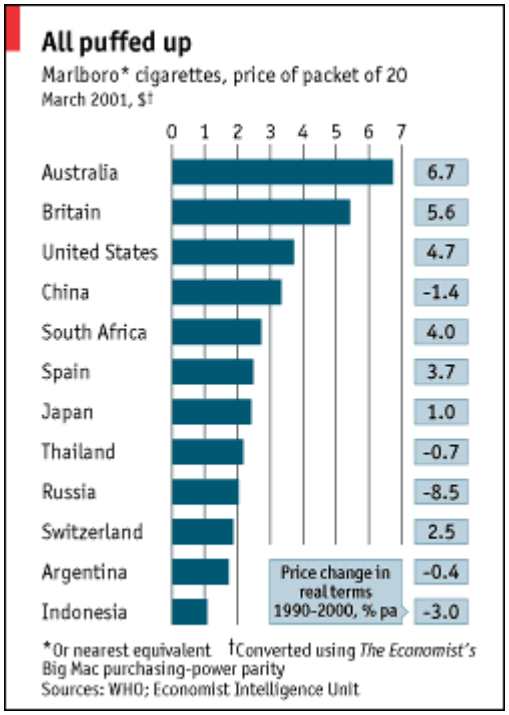
Tax the poor as well as the rich, says the WHO



ALONG with sugar and rum, Adam Smith saw tobacco as one of life's taxable luxuries. The World Health Organisation is inclined to agree. In its crusade to stamp out smoking, the organisation is keen to see tobacco prices go up worldwide. According to estimates from the World Bank, a 10% rise in the price of tobacco products could lead to a 4% drop in demand in rich countries and twice that in the developing world.

A new study by Emmanuel Guindon and colleagues at the WHO, published in the journal *Tobacco Control*, suggests that many countries still have plenty of scope to push up prices. The authors compared the cost of domestic and foreign brands of cigarettes in 80 countries, using *The Economist*'s Big Mac Index to adjust for purchasing-power parity.

Unsurprisingly, they found that cigarette prices are broadly higher in rich countries than in poor ones, and that foreign brands cost more than local varieties. While prices have been rising in real terms in many rich countries over the past decade, they have fallen in poorer places, such as Russia.

The WHO reckons that raising prices worldwide, through taxation, is a good way to reverse the trend. Tobacco taxes range from less than one-third of the price of cigarettes in parts of Asia and Africa to more than 70% of the retail price in much of Europe. Harmonising towards high taxes would not only discourage people from taking up the habit and help to pay for anti-smoking initiatives, public-health experts argue, but also reduce the incentive to smuggle cigarettes from low-tax to high-tax regimes. The tobacco industry and others counter that high taxes disproportionately burden the poor. When it comes to tobacco control, it seems, there is no such thing as a quick fix.

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Economics focus

Checking the slumpometer

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By several measures, Japan's slump is now worse than America's was in the 1930s

HOWEVER bad Japan's economy gets, at least policymakers can console themselves that their slump is not as bad as America's depression of the 1930s. Then, unemployment rose to 25% of America's labour force. Today, Japan's jobless rate has not yet breached 6%. Judged by the extent of human misery, Japan's recession is mild compared with that in America in the 1930s. Yet an analysis by CSFB, an investment bank, suggests that, in some other respects, Japan's slump is worse than the great depression.

It is now over 12 years since Japan's stockmarket bubble burst, in December 1989. CSFB has compared the path of various economic and financial indicators in Japan with those in America over the 12 years following the bursting of its own bubble, in 1929. The striking conclusion is that output, real equity values and profits are now all much lower in Japan than they were 12 years after the Wall Street crash of 1929.

America's economy took a much steeper dive in the early 1930s than Japan's in the 1990s—industrial production fell by half in just three years. Unemployment soared, banks failed in droves, and depositors lost their savings. But recovery then came fairly quickly. Bad loans were written off, and the banks were recapitalised much sooner than in modern Japan. By 1937 American output had regained its 1929 level. It stumbled in 1938, but then rebounded strongly, helped by the outbreak of the second world war.

In contrast, Japan's industrial production stagnated for most of the past 12 years; then it plunged last year, by 15%. As a result, Japan's output today is about 10% below its level in 1989. Twelve years after America's bubble burst, output was more than 40% higher than at the start (see top chart). Likewise, profits and real share prices recovered quite swiftly in America after their initial plunge.

To judge the depth of a slump properly, one needs to go further than the CSFB study and compare the shortfall in output relative to the economy's productive potential, had growth continued on its previous trend. GDP growth averaged 3.5% in America in the 1920s, and just over 4% in Japan in the 1980s. In both cases, these growth rates were unsustainable. Most economists estimate that Japan's trend rate of growth is now much lower. Nevertheless, it is instructive to compare the actual level of GDP with its potential level, assuming these previous rates of growth had been maintained.

America's output shortfall (that is, the gap between actual and potential GDP) reached 40% of GDP in 1933, and it took until 1943 for GDP to regain its theoretical potential. In Japan the output gap has widened slowly but continuously over the past decade, and on current consensus forecasts it will exceed 30% of GDP this year. Adding up the annual loss of output, America's total loss over the 1930s still exceeds Japan's—so far. But even if Japan's economy starts to grow again, output will stay far below potential for some years.

As Japan's economic problems have been allowed to fester, the balance sheets of both banks and the government have got into a far worse state in Japan than at the corresponding stage of America's earlier slump. As nominal GDP fell, the ratio of

America's net public debt to GDP nearly tripled in the first half of the 1930s, but it then flattened off as growth returned. Despite less severe deflation, Japan's net public debt ratio is already far higher than America's was at its peak in the 1930s. It is still rising at an alarming rate, storing up problems for the future.

When good news is bad

Optimists argue that Japan is experiencing nothing like as much pain as America did in the 1930s. Apart from anything else, Japan's slump began at a much higher level of prosperity. Besides, only a handful of banks have failed in Japan, few big firms have gone bust and job losses have been relatively modest. The optimists are right, but in part that is because necessary adjustments after the excesses of the 1980s have been postponed.

Monetary and fiscal policy mistakes helped to deepen America's depression, but they did not prevent the adjustment that was vital for the system to cure itself. To judge by the government's latest economic package, announced this week, the political will to address Japan's problems is still lacking. The package included a call for the Bank of Japan to pursue “bold monetary policy”, new measures to support the stockmarket, and a pledge that the government would act to forestall any financial crisis. It contained no specific plans for cleaning up the banking system.

Japan's recession has not been as abrupt as America's was in the 1930s. If, on the other hand, serious reforms continue to be put off, then the total potential loss of output over the coming years could eventually exceed America's during the great depression.

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Social science

Try it and see

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In the social sciences, it is often supposed, there can be no such thing as a controlled experiment. Think again

Corbis

IN THE scientific pecking order, social scientists are usually looked down on by their peers in the natural sciences. Real scientists do experiments to test their theories—or, if they cannot, try to look for natural phenomena that can act in lieu of experiments. Social scientists, it is widely thought, do not subject their own hypotheses to any such rigorous treatment. Worse, they peddle their untested hypotheses to governments, and try to get them turned into policies.

The Campbell Collaboration, whose second annual conference has just taken place in Philadelphia, exists to change both this perception and the reality behind it by advancing the cause of “evidence-based” social policy. The collaboration is an international, independent, non-profit organisation that brings together social scientists, statisticians and policymakers. Its aim is to assemble and evaluate the best available evidence for the effectiveness of various social interventions. In particular, that means evidence from experiments.

Get real

Governments require sellers of new medicines to demonstrate the safety and effectiveness of their products. The accepted “gold standard” of evidence is a randomised controlled trial, in which a new drug is compared with the best existing therapy (or with a placebo, if no treatment is available). Patients are assigned to one arm or the other of such a study at random, ensuring that the only difference between the two groups is the new treatment. The best studies also ensure that neither patient nor physician knows which patient is allocated to which therapy. This “double-blinding” reduces the risk that wishful thinking or other potential biases may influence the outcome. Drug trials must also include enough patients to make it unlikely that chance alone may determine the result.

Yet the medical industry is held to a higher standard of evidence than that to which governments hold themselves. This is bad, because, as Carol Fitz-Gibbon, a Campbell Collaboration participant from Durham University, in England, points out, school education amounts to about 15,000 hours of compulsory treatment. Social welfare and criminal-justice interventions can be similarly invasive. But few education programmes or social initiatives are evaluated in carefully conducted studies prior to their introduction.

A case in point is the “whole-language” approach to reading, which swept much of the English-speaking

world in the 1970s and 1980s. Whole-language holds that children learn to read best by absorbing contextual clues from texts, not by breaking individual words into their component parts and reassembling them (a method known as phonics). Unfortunately, the educational theorists who pushed the whole-language notion so successfully did not wait for evidence from controlled randomised trials before advancing their claims. Had they done so, they might have concluded, as did an analysis of 52 randomised studies carried out by the US National Reading Panel in 2000, that effective reading instruction requires phonics.

To avoid the widespread adoption of misguided ideas, the sensible thing is to experiment first and make policy later. This is the idea behind a trial of “restorative justice” which is about to begin in the English courts. The experiment, initiated by Lawrence Sherman, a criminologist from the University of Pennsylvania (with the support of England's Lord Chief Justice), will include criminals who plead guilty to robbery or serious assault. Those who agree to participate will be assigned randomly either to sentencing as normal or to participation in a conference in which the offender meets his victim and discusses how he may make emotional and material restitution. The purpose of the trial is to assess whether such restorative justice reduces reoffending. If it does, it might be adopted more widely.

Other randomised trials going on in Britain include an evaluation of the educational, nutritional, social and psychological effects of free breakfasts in English schools, a trial of smoke-alarm installation, and a trial of sex education in Scottish secondary schools.

We have control

The idea of experimental evidence is not quite as new to the social sciences as sneering natural scientists might believe. In fact, randomised trials and systematic reviews of evidence were introduced into the social sciences long before they became common in medicine. Iain Chalmers, a founder of both the Campbell Collaboration and its older and better established medical sibling, the Cochrane Collaboration, identifies an apparent example of random allocation in a study carried out in 1927 of how to persuade people to turn out to vote in elections. And randomised trials in social work were begun in the 1930s and 1940s. But enthusiasm later waned. Brian Sheldon, a social worker from the University of Exeter, in England, suggests this loss of interest can be attributed, at least in part, to the fact that early experiments produced little evidence of positive outcomes.

Thomas Cook, a pioneer of controlled experiments in education at Northwestern University, in Chicago, suggests that much of the opposition to experimental evaluation stems from a common philosophical malaise among social scientists, who doubt the validity of the natural sciences, and therefore reject the potential of knowledge derived from controlled experiments. A more pragmatic factor limiting the growth of evidence-based education and social services may be limitations on the funds available for research.

Nevertheless, some 11,000 experimental studies are known in the social sciences (compared with over 250,000 in the medical literature). Randomised trials have been used to evaluate the effectiveness of driver-education programmes, job-training schemes, classroom size, psychological counselling for post-traumatic-stress disorder and increased investment in public housing. And where they are carried out, they seem to have a healthy dampening effect on otherwise rosy interpretations of the observations. An examination of 308 studies from the criminal-justice literature, by David Weisburd of the University of Maryland and his colleagues, found that randomised trials were significantly less likely to report positive outcomes than non-randomised studies. Analysis of work in other areas gives similar results.

The problem for policymakers is often not too few data, but what to make of multiple and conflicting studies. This is where the Campbell Collaboration comes into its own. Rather than initiating research, it is designed to evaluate existing studies, in a process known as systematic review. This means attempting to identify every relevant trial of a given question (including studies that have never been published), choosing the best ones using clearly defined criteria for quality, and combining the results in a statistically valid way. The Cochrane Collaboration has produced more than 1,000 such reviews in medical fields. The hope is that rigorous review standards will allow Campbell, like Cochrane, to become a trusted and authoritative source of information.

The evidence-based policy movement has its detractors, however. Notably, many object on ethical grounds to the idea of randomly denying half of a population the potential benefit of a new service or initiative. But there is a rejoinder: to ask for evidence that the intervention in question is not itself harmful.

For example, who could object to driver education programmes in schools? But three different studies of a total of about 15,000 students have shown that such programmes are likely to increase road deaths. That is because training programmes, while not producing significantly safer drivers, cause young people to obtain driving licences at an earlier age. And more young drivers means more accidents.

Or take the approach to criminal deterrence commonly known as “scared straight”. The first completed Campbell Collaboration review is an analysis of such programmes, which introduce juvenile delinquents to prison inmates who portray conditions inside in harsh, or at least realistic, terms. The theory is that exposure to the grim realities of life in prison will deter at-risk youths from future crime. A nice idea—but wrong.

Using a variety of statistical techniques, Anthony Petrosino, a criminologist at the US Academy of Arts and Sciences, combined the results of the seven available randomised studies of scared-straight programmes. This meta-analysis, as it is known, strongly suggests that participation in a scared-straight programme substantially increases the likelihood of subsequent arrest among participants.

Because they are cheap to run and politically popular, scared-straight programmes are widespread in the United States. Yet the obvious conclusion from Dr Petrosino's analysis is that such programmes are not only harmful to participants, but also place everybody in society at increased risk of crime. A few more counter-intuitive results such as that, and experiment-based social science might at last be given the respect that it deserves.

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HIV microbicides

Free to choose

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Microbicides could give women a weapon against HIV—without rubbing men up the wrong way

Get article background

AP

Will the Pope give his blessing?

IN THE sexual politics of AIDS, the balance of power is too often tilted towards men. Short of abstinence, the only reliable way of stopping the spread of HIV, the virus that causes the disease, is by using a condom. Despite attempts to craft versions of this device that can be worn by women, condoms are largely a male prerogative. If a man won't wear one, there is not much a woman can do to protect herself, short of outright refusal of his advances. And that is not always the preferred option.

One solution might be a vaginal microbicide that a woman would apply in anticipation of intercourse. This would either kill the virus, or block its entry into the body (not strictly a microbicidal action, but the term is still used). Over the past few weeks the Rockefeller Foundation and the Population Council, both based in New York, and the British government's Department for International Development (DFID), have launched co-ordinated initiatives designed to step up research and funding for such microbicides.

The Rockefeller Foundation's contribution was to publish, on February 15th, the results of studies begun in June 2000 to assess the feasibility of microbicides. The foundation concluded that a workable product could reach the market as early as 2007, and could stop 2.5m new infections in the first three years. Money, however, is needed to make it past the first hurdles of development, since no big pharmaceutical companies have yet chipped in with serious investments. One of the goals of the new initiative is to prove to “big pharma” that microbicides could generate a big enough demand, and thus be worthy of the $500m investment that the foundation reckons it would need to bring a product to market. The Rockefeller thinks that the annual market for such a product would be worth $900m by 2011.

The leading candidate at the moment is Carraguard, developed by the Rockefeller-affiliated Population Council. Carraguard is the proprietary name of a substance made from carrageenan, a carbohydrate gel derived from seaweeds that is widely used as a stabiliser in the food industry. Carrageenan contains large negatively charged molecules called sulphated polysaccharides. It is believed that their strong electric charges attract them either to the viruses (thus inactivating them) or to the cells of the vaginal wall (thus covering those cells like a coat of paint and preventing viruses from entering the body). Tests on animals suggest that the substance may offer similar protection against other venereal diseases, including herpes, gonorrhoea and genital warts.

The Population Council has run small safety trials of Carraguard over the past couple of years. On February 2nd, it announced that it was organising a full-scale clinical trial of the stuff in South Africa. This trial, which will involve 6,000 women, is to be paid for in part by the Gates Foundation (which is chipping in $20m) and is due to start later this year.

Carraguard has several things going for it. First, carrageenan is already known to America's Food and Drug Administration. The FDA has classified it as “generally recognised as safe”, its highest safety rating. Second, Carraguard has shown no harmful effects in the early human trials. This was a relief, after attempts to make a microbicide out of nonoxynol-9—a spermicide commonly employed in association with condoms—revealed that frequent use made HIV infection more, rather than less, likely. Besides

killing sperm and viruses, it turned out that nonoxynol-9 kills vaginal-wall cells, causing ulceration and thus giving the virus an entry-point.

Carraguard's third advantage is that it is not a spermicide. Besides offering greater choice to couples who want children, that should eliminate the religious objection that has dogged condoms: that they are a “dual-use” technology, protecting against conception as well as infection.

Meanwhile, on February 19th, DFID announced that it was sponsoring, to the tune of £16m ($22.5m), research into Emmelle and Pro-2000—two other microbicides that work in a way similar to Carraguard. These substances are behind Carraguard in the development pipeline, though both have undergone small-scale trials. DFID plans to pay for Britain's Medical Research Council and Imperial College, London, to conduct further, larger trials in collaboration with local research institutes in Cameroon, South Africa, Tanzania, Uganda and Zimbabwe. Proving a medical invention and deploying it are, of course, two entirely different things. But a safe microbicide would be an important weapon in the anti-AIDS arsenal.

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Whales and sonar

Under water, no one can hear you scream

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The American navy may soon have a whale of a problem

IT MIGHT offer a plot for a Hollywood blockbuster. The usual suspects are present: evil military types, a plucky band of environmentalists and a cast of loveable animals fighting for their survival. The story is spoilt, though, by the fact that the would-be heroes of the drama—earnest biologists trying to make the truth heard over the political fray—are still off in a corner arguing with each other over the scientific evidence.

The loveable animals in question are the world's whales. At stake is the American navy's use of a new form of sonar. For the past two years, it has been trying to get permission to deploy low-frequency active sonar (LFAS), a system designed to hunt for very quiet submarines. But the frequency range of LFAS (100-500Hz) is the same as that used by baleen whales (blue, grey, fin and humpback—the most charismatic species) in their songs. Biologists worry that LFAS might thus damage these whales in some way. That would make its use illegal under an American law from which not even the navy is exempt. In the next couple of months, the National Marine Fisheries Service (NMFS), the agency responsible for protecting the welfare of marine mammals, is due to announce whether it will let the navy deploy the new device. It's decision, one way or the other, is sure to infuriate somebody.

Sounding the depths

The reach of the proposed system is remarkable. Because of the distance that low-frequency sound waves can travel under water, a set of four ships emitting sound at 235 decibels could monitor 80% of the world's oceans for submarines. But it is precisely that reach which, from the whales' point of view, might be worrying. So, in 1997 and 1998, the navy gathered data on the response of whales to an LFAS test array. Kurt Fristrup, a marine biologist at Cornell University who helped to conduct this study, says humpback whales exposed to LFAS altered the lengths of their songs slightly, but resumed normal calling a few hours afterwards. Grey whales exposed to a test source in the middle of their migration path altered their routes to avoid it, but once the source was moved out of the migration corridor and further into the ocean, they appeared to ignore it.

That does not sound much to worry about, and in any case, the navy says the system can be made safe. It has been designed to switch off as soon as a broadcasting ship comes within 1km of a whale. At this distance the animal would hear the sonar at a volume of 180 decibels, which the navy says will cause no harm.

Some whale experts, however, disagree with the navy's boffins. Lack of alteration does not imply lack of injury, according to Naomi Rose, a marine biologist at the Humane Society, an American animal-welfare charity. The animals could have been disturbed or even partially deafened, but their mating and migrating activities may have been too important for them to change their patterns of behaviour. More pertinently, the navy's test array broadcast at a maximum level of 155 decibels. That is roughly 0.3% of the power of the 180-decibel cut-off point that the operational system would have.

Meanwhile, greens are fretting not only about the whales, but also about the vigour of the agency appointed to protect them, which they fear is the victim of “regulatory capture”. According to Michael Jasny of the National Resources Defence Council, an environmental lobby group, the best available science has shown that LFAS causes “severely adverse effects” in marine mammals. “The NMFS would have to tie itself in knots to come up with a determination supporting the navy.”

Dr Fristrup, though, doubts if more studies and more tests could assuage the fears of whale-lovers.

Certain groups, he says, “oppose LFAS deployment on principle: their positions are clearly not susceptible to change based on any scientific evidence that can be developed.”

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The Oscars

Magic, maths and love

Feb 28th 2002
From The Economist print edition

We make our fearless yearly predictions of probable winners and losers at the Oscar awards in Hollywood on March 24th

Get article background

EACH year the Oscars cause a surprise or two, even a disagreement. Plucked eyebrows went up, for example, when Marcia Gay Harden took the best-supporting-actress award last year for her part in the little-seen “Pollock”. But in most of the big Oscar categories an invisible hand guides voters in the Academy of Motion Picture Arts and Sciences towards consensus, and this spring will surely be no exception.

To begin with a near-certainty, the award for best animated feature film should go to “Shrek”. This is a new category, marking in effect the evolution of animation from cartoons to the world of computer-generated imagery. All three nominees in this class—“Jimmy Neutron: Boy Genius”, “Shrek” and Disney's “Monsters, Inc”—dispense with traditional drawn animation, but “Shrek” is the wittiest and the most inventive.

In 18 of the past 20 years, the film with the most nominations has in the end been named best picture. This year, “The Lord of the Rings”, with 13, fills that slot. But a fantasy film has never won. Even “Star Wars”, which notched up ten nominations in 1977, was pipped by Woody Allen's “Annie Hall”, nominated for five awards, but victorious in four. “The Lord of the Rings” has more artistic pretension than “Star Wars”; some, indeed, consider it a decent stab at Tolkien. Yet it is difficult to isolate a single element likely to make it a winner.

“A Beautiful Mind”, by contrast, brims with best-picture distinction. A triumph-over-adversity tale about John Nash, a real-life mathematician and paranoid schizophrenic who in 1994 won a Nobel prize in economics, it has commanding performances from Russell Crowe and Jennifer Connelly, and an inspiring script by Akiva Goldsman (even if it is economical with the truth—and the economics). “A Beautiful Mind” has also done well at the box office, an Oscar *sine qua non*.

None of the other best-picture nominees has as strong a hand. Neither “In the Bedroom” nor “Moulin Rouge” is up for best director, and only once in the past 50 years has the best-picture award gone to a film whose director was not nominated (“Driving Miss Daisy”, in 1989). Robert Altman's “Gosford Park” has a sheaf of nominations, but its very British class-distinction theme is possibly too parochial for Hollywood's taste.

Mr Altman, however, might well be named best director. In recent years, both Steven Spielberg and

Steven Soderbergh have taken the trophy when their films (“Saving Private Ryan” and “Traffic”) did not. Ridley Scott and David Lynch are in contention, for “Black Hawk Down” and “Mulholland Drive” respectively, but as neither film has been nominated for the top award, their chances look slim. Ron Howard, a former child actor and co-star of TV's “Happy Days”, is to be reckoned with as the director of “A Beautiful Mind”—more so than Peter Jackson for “The Lord of the Rings”. But Mr Altman's sheer class should carry the day. He often belittles his own contribution to his films. “Somebody has to be at the studio in the morning to switch on the lights,” he says. “After that it's up to the actors.” But when more than a score of them give superb ensemble performances, as in “Gosford Park”, the director surely deserves some of the credit.

Few actors take the best-actor award two years in a row. Only Spencer Tracy, Tom Hanks and, in the supporting category, Jason Robards have done so. Mr Crowe may soon join their ranks. He won last year for “Gladiator” and may win again for “A Beautiful Mind”. He is up against two black actors (Will Smith in “Ali” and Denzel Washington in “Training Day”, who may split the vote), Britain's Tom Wilkinson for “In the Bedroom”, and Sean Penn for “I Am Sam”, a fine actor who has done better work. In this field it is hard to see how Mr Crowe could lose.

Similarly, Sissy Spacek faces little real competition as best actress. A previous winner in 1980 for “Coal Miner's Daughter”, she has gathered a slew of awards for “In the Bedroom”, a comeback performance widely regarded as the year's best. Judi Dench has a big American following, but her impersonation of Iris Murdoch may have followed too closely on her 1998 supporting-actress Oscar as Elizabeth I in “Shakespeare in Love”. Renée Zellweger (“Bridget Jones's Diary”) and Halle Berry (“Monster's Ball”), meanwhile, are at the lighter end of the acting spectrum. That leaves Nicole Kidman, whose professionalism in putting a bruising divorce behind her and delivering three top-notch performances in a single year is likely to win her a big sympathy vote. She is Ms Spacek's only credible rival. Unfortunately, her nomination is for “Moulin Rouge”, not for her superior work in “The Others”. Right actress, wrong part.

Supporting actress? Ms Connelly, who, like Ms Spacek, has already won a fistful of awards, should see off the competition for her work in “A Beautiful Mind”. Discounting Marisa Tomei for “In the Bedroom” and Kate Winslet as the young “Iris”, the big guns are laying down fire for “Gosford Park”, with Maggie Smith and Helen Mirren both nominated. Dame Maggie, though, has won two Oscars before, and more than one star turn in a single film often spells failure for all—think of Dustin Hoffman and Jon Voight in “Midnight Cowboy” and of Karl Malden, Lee J. Cobb and Rod Steiger in “On the Waterfront”.

In the supporting-actor division, will Ian McKellen's pointy hat do for “The Lord of the Rings” what Alec Guinness's Stratford-upon-Saturn presence could not for “Star Wars”? The analogy is close—two British thespian knights slumming in a kiddie-epic. Or will Oscar voters be impressed that Ben Kingsley, their 1982 choice for best actor in “Gandhi”, can also play a brutal cockney gangster, in “Sexy Beast”? Or will they fall for the dithering charm of Jim Broadbent in “Iris”?

Probably none of the above. The Oscars were set up in 1927-28 to reflect credit on the industry and to reward Hollywood's own. The film academy's members are no anglophobes—they just salute Americans whenever they can. And this year there is a natural to set against the British challenge of Messrs McKellen, Kingsley and Broadbent. Jon Voight, best actor of 1978 for “Coming Home”, is nominated for his performance in “Ali”. Buried under a mound of latex and vocally unrecognisable, Mr Voight is transformed into Howard Cosell, the Walter Matthau of sports commentators. Will film voters acknowledge that feat on March 24th? You bet.

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Science and politics

Holding to account

Feb 28th 2002
From The Economist print edition

The practice of pure science is far from pure, two controversial books argue

IT IS less fashionable than it was to ask what science is or who it is for. The theoretical debates of the 1980s and 1990s have died away in mutual exhaustion as other issues—the uses and abuses of technology, the education of a voting public that bothknows more about science and is less awestruck by its practitioners—have come to seem more pressing. Yet the two sorts of issue cannot really be disentangled. What scientists think they are up to affects the way they plead for public money, and how far government and the public understand the aims of science affects how well scientists succeed. Purists hold that pursuing scientific truth is necessary and valuable in its own right. And in one sense we are all purists. But as these two thoughtful books show, the actual conduct of that pursuit is highly contingent and political.

Daniel Greenberg's "Science, Money and Politics" is the culmination of 40 years of pounding the science-policy beat. It is a masterly overview of how big science and big government have operated together in post-war America. Over the years, Mr Greenberg has been an often lonely voice championing the public's right to know how wisely scientists were spending its hard-earned money. It is probably fair to say that, through the medium of his newsletter, *Science and Government Report*, Mr Greenberg pretty well invented a new way to cover big science—as a form of government spending no different, in budgetary terms, from defence procurement or agricultural support.

When his newsletter began in 1971, it was rare to hold the scientific establishment to the same standards of accountability as other special-interest groups. But Mr Greenberg showed time and again that in pursuit of money scientists were as grasping as any spending department. Far from being pure, research science involved money-grubbing politics, backroom deals, special pleading, inflated claims and scare-mongering. Too often in return the public got shoddy science and waste on a monumental scale. It was no surprise that many of science's great and good tried to drive Mr Greenberg from the temple.

He was in the thick of two of the bitterest reversals for science's more-is-better creed, and looks back on both in his latest book. One was the so-called shortfall campaign which the National Science Foundation (NSF) began to promote in 1986. Because of demographics, the NSF said, America faced a shortage of some 675,000 science and engineering graduates.

In fact, the NSF report was alarmist and ill-grounded. In particular, it woefully underplayed immigration by foreign scientists and engineers. Even so, an uncritical press quickly whipped a supposedly incontrovertible fact into a crisis—despite signals from the job market (often reported in the very same publications) indicating that there was no such shortage. When saner heads from the world of engineering finally exploded the shortage myth in 1990, the scientific research establishment responded as if the highest goals of science itself had been betrayed.

The demise of the Superconducting Super Collider (SSC) in 1993 was an even bigger reversal. Billed as the world's largest atom-smashing machine, the SSC's 54-mile circular underground tunnel, with all its vacuum casing, instrumentation and thousands of superconducting magnets to steer and focus the beam

Science, Money and Politics: Political Triumph and Ethical Erosion
By Daniel S. Greenberg

University of Chicago Press (August 2001); 528 pages; $35

Buy it at
Amazon.com
Amazon.co.uk

Science, Truth and Democracy
By Philip Kitcher

Oxford University Press; 240 pages; $27.50 and £22.50

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of positively-charged particles, was to have cost more than $4 billion. But when the estimated costs had soared to $12 billion and showed no signs of slowing, even the top policy-makers in the scientific establishment had to admit that the project risked denuding not just the rest of particle physics, but quite possibly all sciences. Mr Greenberg, to be sure, does not take personal credit for these particular victories. But his muckraking opened a breach for others.

That the public voice is now being heard more in the ordering of research priorities is something Philip Kitcher can take heart from. In setting scientific agendas, Mr Kitcher, a philosopher at Columbia University, thinks we need to avoid both democratic faddishness and short-termism on the one hand and an elitist pursuit of truth without regard to practical consequences or human needs on the other. He criticises scientific eminences, however fine their intentions, for failing to take seriously enough a fundamental question: what is the collective good that we want scientific inquiry to promote?

Mr Kitcher has no time for what he treats as the theology of science: the exalted view that science transcends other callings and can best be guided from within. In his own scheme of things, a well-ordered science has the disinterested pursuit of truth at its centre, but set within a more democratic framework. Mr Kitcher cheerfully admits that he has not picked easy ground. Some criticise him for being too conservative in his challenge, others of flirting recklessly with the idea of truth by a show of hands. But, he answers, setting any scientific agenda involves fallible choices about priorities and money. Without going far into the detail, Mr Kitcher holds that the democratic way of doing this is better than any alternative.

Mr Greenberg agrees. But could it, he asks, serve us better? Does it ignore opportunities for the advancement of knowledge and the betterment of humankind? Yes, he suggests, on both counts. Thanks to authors like these, such questions are being asked again in a serious and responsible way. Science can only be richer and healthier for it.

Science, Money and Politics: Political Triumph and Ethical Erosion.
By Daniel S. Greenberg.
University of Chicago Press (August 2001); 528 pages; $35

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Literary biography

Resounding brass

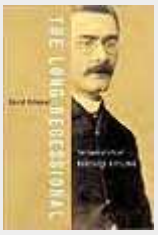
Feb 28th 2002
From The Economist print edition

ALTHOUGH he refused to be poet laureate, just as he turned down most other official honours, Joseph Rudyard Kipling (1865-1936) remains a defining voice of British imperialism. He died two days before George V. “The King has gone,” it was said, “and taken his trumpeter with him.”

Kipling won the Nobel prize for literature in 1907, and has always had powerful and discriminating advocates in the literary world. Yet even those, such as T.S. Eliot and Anthony Powell, who felt comfortable with his politics, defended his writing with a curious sense of embarrassment—an embarrassment rooted in the belief that Kipling's contempt for experiment in the arts was irredeemably philistine.

David Gilmour is not embarrassed to defend Kipling: for him, the very failure of the institutions that Kipling admired makes him more sympathetic. Without sharing it, Mr Gilmour puts his racial thinking into its time and place, and he balances his ferocious hatred of female emancipation against the sympathetic portraits that he drew of women (such as an Englishman's discarded Indian mistress) who were victims of male power.

The Long Recessional: The Imperial Life of Rudyard Kipling
By David Gilmour



Farrar, Straus & Giroux (April 2002); $26
John Murray; 352 pages; £22.50.

Buy it at
Amazon.com
Amazon.co.uk

Most of all, Mr Gilmour aims to place Kipling's writing in the context of his defence of empire, an empire that Kipling described as “the fabric of my mental and physical existence”. After school in England, the Bombay-born Kipling spent formative years in India as a young man. Yet he returned to England at 23 and except for a brief visit in 1892 never saw India again. From then on, his view of empire became geographically wider but culturally narrower, and increasingly the subjects of his attention were the white men who ruled rather than the interaction of races.

Kipling came to prominence after the adventurers and privateers who had built the British empire (he himself never heard a shot fired in anger) and before the naked power-politics of the mid-20th century (he hated Nazism). For him, the empire was about consolidation and administration rather than conquest, and its benefits were often unromantic ones: it gave its inhabitants railways, sanitary engineering and, above all, law (he was a notably litigious man himself).

Mr Gilmour's biography does not entirely live up to the claims that it makes to say something new about Kipling's relations with empire. Given the proliferation of biographical and critical studies of Kipling in recent years, it is hardly surprising that some of his points have been made by previous writers, though it is no dishonour that his analysis here is close to George Orwell's. Probably Mr Gilmour's greatest success is in evoking the private life (about which Kipling was very discreet). He shows brilliantly how personal unhappiness underlay public success.

Like many writers who extol masculine virtues, Kipling seems to have been happiest in the company of women, particularly his sister Trix, but his marriage, which coincided with this departure from India, was not happy. “He travels fastest who travels alone”; no one is more alone than the prisoner of an unhappy marriage, and after marriage Kipling travelled very fast. Personal misfortune haunted his middle years. Trix became mentally ill; one of his daughters died as a little girl. Worst of all, in 1914 Kipling used his influence to ensure that his son John obtained a commission in the Irish Guards, in spite of poor eyesight. The boy was killed at the age of 18 on his first day in action.

The last 20 years of Kipling's life were overshadowed by death. He devoted much work to the Commonwealth War Graves Commission—an especially painful duty in view of the fact that his own son's

body had not been found. He stood up to the Cecils (perhaps the most powerful aristocratic family in the land) to ensure that the rich were not allowed to erect special memorials to their own sons. Kipling, who had spent so much of his life defending hierarchy among the living, defended equality among the dead.

The Long Recessional: The Imperial Life of Rudyard Kipling.
By David Gilmour.
John Murray; 352 pages; £22.50.
Farrar, Straus & Giroux (April 2002); $26

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Hermits and other loners

All by myself

Feb 28th 2002
From The Economist print edition

THIS is a book for dipping into. Isabel Colegate has read about hermits and recluses up and down the ages, and across the world. She casts her net wide, catching fish of every kind: holy men and women, poets, travellers, naturalists, misanthropes and misfits. Here is St Antony of the desert, St Simeon on his pillar and Mother Julian in Norwich. But here too is Mrs Pobjoy of Bath, who, when her lover Beau Nash died in 1761, moved into a hollow tree and stayed there. Eccentricity marks them all, a quality frowned on by the church and embraced by fashion—in the 18th century at least, when a fad for designer wildernesses included actor-hermits paid to neglect their hair and nails.

Ms Colegate's interest is, at bottom, personal. As a novelist she prizes solitude and regrets the encroachments of modern life. The ancient idea that it purifies the heart, sharpens the mind and leads to transcendence is attractive to her. The Romantics breathed powerful life into the notion, and it is not surprising that some of the book's best passages concern them.

Romantic poetry apprehends the divine in nature, so it is equally unsurprising that Ms Colegate is moved by the thought of direct communion with God. But it is less the eremitic tradition that sparks her than her encounters with living hermits, tucked away in Wales and Scotland and at the bottom of a Surrey garden. This is where she is most engaged and engaging, describing the people she admires, the literature she loves, and the places that have inspired both. The rest—the research and the history—is never as convincing.

A Pelican in the Wilderness: Hermits, Solitaries and Recluses.
By Isabel Colegate.
HarperCollins; 320 pages; £16.99.
Counterpoint Press (April 2002); $25

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Bill Clinton's presidency

For the defence

Feb 28th 2002
From The Economist print edition

BOTH Washington politics and New York publishing work on a relentless, accelerated rhythm. Here is Bill Clinton, just over a year out of the White House, and already serious journalists are coming out with reassessments of his presidency and his times. Already, too, as a result of September 11th, Mr Clinton, his achievements and his shortcomings are in danger of fading into the premature oblivion that is as much part of the media age as the Warholian 15 minutes of fame.

Haynes Johnson, formerly of the *Washington Post*, focuses more on the Clinton era. Joe Klein, of *Newsweek*, and perhaps best-known as the pseudonymous author of the political novel about the Clintons, “Primary Colors”, writes more about its central figure. Mr Johnson, an old-style Democrat, is more critical of the 42nd president. Mr Klein, an uneasy New Democrat, while balanced in his assessment, has laid down the plinth for a future rehabilitation of Mr Clinton's reputation. Both books are beautifully written, and show how witty, perceptive and morally grown-up American political journalism can be at its best.

Mr Johnson's theme is that the 1990s were for America what the mid-Victorian decades were for England: an apogee. By implication, he is saying that things now will go downhill. Mr Clinton's millennial state-of-the-union message—understandably for a president who had skirted catastrophe by a coat of paint—expressed this view in triumphalist vein. The vision was of unending hegemony and prosperity, guaranteed by e-commerce and measured by the Nasdaq and the Dow as they repealed the laws of economic gravity.

Mr Johnson does not buy this view. He sees the Clinton years as a warning. “Signals were flashing of surprising public unease—surprising in view of the extraordinary good times that graced America.”

The heart of his book is two sustained narratives, as full of juicy titbits as a cherry cake, about the twin peaks of an age of vicious scandal. The motto of the TV newsrooms was, first, “All O.J., all of the time!”, then, “All Monica, all of the time!” Mr Johnson analyses with painful honesty how the excesses of a news-media industry, more commercialised than ever, were twisted together with the excesses of a legal profession obsessed with money and celebrity, to inflame national obsessions with race, scandal and recreational sex.

Mr Klein, too, castigates the distempers of the times and of the media. But his focus is sharply on his central figure. He does not spare Mr Clinton's sexual recklessness and he is even more severe about the “libidinous crudeness” of his departing lavishness with pardons—as “inappropriate”, to use Mr Clinton's own weasel word, as his relationship with an adolescent intern. He acknowledges the sheer sloppiness of the administration in its first term. But he also argues, persuasively, that both Mr Clinton's qualities and his achievements have been unfairly underestimated.

Mr Klein praises Mr Clinton's courage, not least in abandoning a tax cut for deficit reduction instead. He praises, too, his generous instincts and his belief that politics must have high ambitions. Say what you will about him, Mr Clinton did have what George Bush senior famously disparaged as “the vision thing”. In all sincerity, he envisaged a nation purged of racial and other hatreds, a society that would be a beacon to the world. The reality, Mr Klein admits, was less than that. He claims, though, that “amid the

The Best of Times: America in the Clinton Years
By Haynes Johnson

Harcourt Brace; 640 pages; $27

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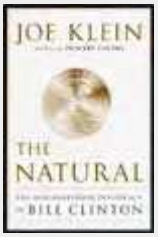
The Natural: The Misunderstood Presidency of Bill Clinton
By Joe Klein



Doubleday; 208 pages; $22.95

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dashed hopes and the scandals and the bitterness", a great deal of real work was done in a "serious, substantive presidency". Mr Klein has put down a marker for what will be long and impassioned argument.

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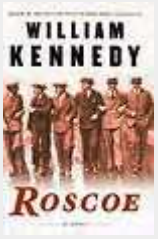
New fiction

A low blue flame

Feb 28th 2002
From The Economist print edition

AS WILLIAM KENNEDY recreates it in “Roscoe”, the political chicanery that keeps the Democratic machine ticking over in his native Albany, New York, between the two world wars makes 2000's electoral shenanigans in Florida look like child's play. Forget errant chads: in one Albany ward no Republican votes are recorded at all because “the Republican line was soldered”. City-run bordellos, bookmakers and bootleggers facilitate lavish patronage, making the world safe, if not for democracy, then at least for Democrats.

Roscoe
By William Kennedy



Viking; 304 pages; $24.95

Buy it at
Amazon.com

Oiling the mechanism for 26 years, Roscoe Conway has learnt that politics' rewards can be safely reaped from behind the scenes. He shuns candidacy for the role of party fixer, smoothing scandals wrought by vengeful tarts, trigger-happy cops and crooked cockfighters. Though it has mystery, thriller and romance elements, “Roscoe” is primarily a character study. Roscoe is a good man whose natural honesty is perfectly at odds with his political role. “Any man who seeks power through truth is either a fool or a loser,” he reflects.

Some readers may find the large cast taxing, while the Chandleresque dialogue, in its very stylishness, precludes intimacy. But for those with a taste for the archetypal, “Roscoe” is a feast of spicy repartee and all-you-can-eat characters. The period details, too, are delicious, like the “the drinker's test” of the lethal home-brew sold during Prohibition: “Pour a little on the sidewalk and light it. If it gives a blue flame, drink it. If it's yellow, sell it and run.”

Roscoe.
By William Kennedy.
Viking; 304 pages; $24.95

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About sponsorship

Jonas Savimbi

Feb 28th 2002
From The Economist print edition

Jonas Malheiro Savimbi, a despoiler of Angola, died on February 22nd, aged 67

Reuters

Get article background

HIS death had been reported at least 15 times before. So when the news broke that Jonas Savimbi had been shot dead by government troops, Angolans bottled up their glee until they could be sure. Then they saw television pictures of his corpse, laid out on a table, perforated with bullet holes, and they celebrated in the streets. With the country's most brilliant, energetic and ruthless rebel leader dead, Angolans dared to hope that their wretched land might find peace at last.

Mr Savimbi was not the sole cause of Angola's civil war, but he was probably the most important reason why it has lasted so long. When one *casus belli* disappeared, he always found another. The war started as a struggle to liberate Angola from Portuguese rule. But when the Portuguese left in a hurry in 1975, pausing only to block the drains with cement, the fighting continued. Mr Savimbi fought to oust the new ruling party, the Popular Movement for the Liberation of Angola (MPLA), largely because he was not in charge of it. His soldiers followed him, largely out of tribal loyalty. The United States and the apartheid regime in South Africa supplied him with cash, missiles and reinforcements, largely because the MPLA was Marxist, and received help from the Soviet Union and Cuba.

Charming and multilingual, Mr Savimbi told potential supporters whatever they wanted to hear. When seeking military aid from China, he claimed to want to build a Maoist state that would somehow accommodate the local culture. To his South African allies, he billed himself as a bulwark against communist imperialism. When wooing Ronald Reagan, he pretended to be a democrat and an avid fan of the free market. To fellow members of the Ovimbundu tribe, Angola's largest, he presented himself as a king, who would restore their ancient glory and drive the *mestiços* who ruled Angola into the sea.

His only sincere belief, however, was that he ought to be president of Angola. When the cold war ended, the superpowers stopped squabbling over the country and pushed both sides to stop shooting. An election was held in 1992. Mr Savimbi was sure he would win, but he lost. Furious, he cried foul and went back to war.

Evil in a red beret

Jonas Malheiro Savimbi was born in 1934, into a proud family. His grandfather was an Ovimbundu chief who led a revolt against the Portuguese in 1902. Defeated, he was deprived of his chieftainship. Savimbi is said to have grown up resenting the humiliation. He went to Portugal in 1959 to study medicine, but soon ditched his studies to become a revolutionary. He started modestly, with 11 men, some knives and a pistol. His band of guerrillas grew, and was named the National Union for the Total Independence of Angola (UNITA) in 1966.

For most of the rest of his life, Mr Savimbi lived in the bush with his guerrillas. In the early years, he was popular. He cut a dashing figure in his fatigues and red beret, and peasants at all-night rallies found his oratory entrancing. His sheer energy kept UNITA going: he walked thousands of miles between remote villages, preaching war and organising his followers into revolutionary cells. Legends circulated of his stamina, his incredible sexual appetite, and his seeming invulnerability. He was said never to sleep two nights running in the same bed—inconvenient, no doubt, for his family, which reportedly included several wives and dozens of children.

Mr Savimbi's popularity waned, however, as his tactics grew more vicious. He ordered his men to plant millions of mines in Angola's fertile soil, to raze villages and to drive hordes of refugees into the cities, where he hoped they would become a burden on the government. Fearing that some of his officers might want to supplant him, he had them killed, along with their families. Other suspected waverers were accused of witchcraft and burned alive, or cast into UNITA's “prisons”: deep pits, sealed with logs and earth, pitch black and inescapable.

In his last decade, Mr Savimbi had no outside support, so he kept his army supplied with bombs and bullets by selling diamonds mined in areas he controlled. A global embargo on “conflict diamonds” reduced his takings, but only somewhat. Diamonds are small, precious, and easy to smuggle. To secure adequate food for his men, he encouraged them simply to seize it at gunpoint from the peasants among whom they lived. His brutality ended up strengthening the government he was trying to overthrow. The war gave the MPLA an excuse to jail and harass its civilian opponents. When anyone wanted to know what had happened to Angola's oil revenues, ministers cited national security and kept mum.

A biographer, Fred Bridgland, tells a story which may be apocryphal but sounds true. When Jonas Savimbi was a boy, he owned a football. The missionaries at his school arranged a match between their students and some white boys from a neighbouring town. Jonas provided the ball, and the white boys brought a Portuguese referee. The white team surged ahead. Jonas accused the referee of bias, picked up the ball and walked off, spoiling the match. Mr Savimbi died as he lived, a despoiler with a gun in his hands.

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Overview

Feb 28th 2002
From The Economist print edition

New figures suggest that the **euro area economies** reached a trough late last year. **Germany's** GDP fell by 0.3% in the fourth quarter of 2001 (an annual rate of 1.0%), its second consecutive quarter of decline. Output fell by 0.1% over a year earlier, the first drop since 1996. **French** GDP also fell in the fourth quarter (by 0.1%), for the first time in five years, as consumer spending slowed sharply.

EuroCOIN, a new real-time economic indicator for the euro area, showed economic growth for a second consecutive month in January, following what its publishers reckon was the trough of the latest recession in November. Business surveys are also signalling that the euro area has perked up this year. **Germany's** IFO institute's closely watched index of business confidence (based on the views of 7,000 companies) rose for a fourth consecutive month in February. In **France**, INSEE's survey of business confidence for February also suggested that the worst is over.

From the end of February, all the **former national currencies** in the euro area ceased to be legal tender, so we will no longer publish their individual exchange rates in our table.

Following the introduction of euro notes and coins, the 12-month rate of **inflation** jumped in January in several euro economies. **French** inflation rose to 2.2%, from 1.4% in December, **Spain's** rose from 2.7% to 3.1%. However, in February **Germany's** inflation rate fell to 1.7%, from 2.1% in January.

Revised figures showed that **Britain's** GDP ground to a halt in the fourth quarter of last year (down from an original estimate of 0.2% growth), its worst performance since the 1992 recession. But output was still 1.7% higher than a year earlier.

American consumers may be suffering a crisis of confidence. The Conference Board's consumer-confidence index fell to 94.1 in February from 97.8 in January, after two months of rising confidence. America's housing market gave mixed signals: existing home sales reaching record highs, while new home sales hit an 18-month low in January.

A rare bit of good news for **Japan**: the Nikkei share index rose by 7.5% over the week, after the government penalised four foreign stockbrokers for violating short selling rules.

The price of **gold** fell back from the $300 per ounce level it briefly touched last month.

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Output, demand and jobs

Feb 28th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 4.6	+ 2.5 Q3	+ 2.2	+ 3.3	+ 0.4 Q3	+ 4.8 Q4	7.0 Jan	6.3
Austria	– 0.3	+ 0.9 Q3	+ 1.0	+ 1.0	– 5.5 Nov	– 1.4 Nov	4.2 Dec	3.6
Belgium	+ 0.1	+ 0.7 Q3	+ 1.1	+ 1.0	– 6.4 Dec	– 2.0 Dec	10.9 Jan*	10.7
Britain	+ 0.1	+ 1.7 Q4	+ 2.4	+ 1.9	– 4.6 Dec	+ 4.2 Jan	5.2 Dec†	5.3
Canada	– 0.8	+ 0.8 Q3	+ 1.4	+ 1.4	– 6.0 Nov	+ 5.7 Dec	7.9 Jan	6.9
Denmark	+ 2.1	+ 1.4 Q3	+ 1.1	+ 1.3	– 6.3 Dec	+ 1.5 Dec	5.0 Dec	5.4
France	– 0.6	+ 0.9 Q4	+ 2.1	+ 1.4	– 1.7 Dec	– 0.6 Dec	9.0 Jan	8.9
Germany	– 1.0	– 0.1 Q4	+ 0.7	+ 0.7	– 5.1 Dec	– 4.1 Dec	9.6 Jan**	9.3
Italy	+ 0.6	+ 1.9 Q3	+ 1.8	+ 1.1	– 4.1 Dec	– 0.9 Nov	9.3 Oct	10.0
Japan	– 2.1	– 0.5 Q3	– 0.4	– 1.3	–11.1 Jan	– 4.4 Dec	5.6 Dec	4.9
Netherlands	nil	+ 0.4 Q4	+ 0.9	+ 1.1	– 6.2 Dec	+ 1.2 Nov	1.9 Jan§	2.6
Spain	+ 0.7	+ 2.3 Q4	+ 2.6	+ 1.8	– 4.5 Dec	na	12.9 Dec	13.5
Sweden	+ 0.2	+ 0.4 Q3	+ 1.2	+ 1.4	+ 0.9 Dec	+ 1.0 Dec	4.4 Jan*	4.4
Switzerland	+ 0.1	+ 0.8 Q3	+ 1.4	+ 0.9	+ 1.9 Q3	+ 1.2 Dec	2.6 Jan*	2.0
United States	+ 0.2	+ 0.1 Q4	+ 1.1	+ 1.2	– 5.2 Jan	+ 6.5 Dec	5.6 Jan	4.2
Euro area	+ 0.4	+ 1.4 Q3	+ 1.5	+ 1.1	– 4.1 Dec	+ 1.3 Nov	8.5 Dec	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 5.0	nil Q3	na	na	– 3.1 Dec	+ 4.5 Nov	9.9 Jan*	9.9
Greece	na	+ 4.4 Q3	na	na	+ 0.7 Nov	+ 4.1 Oct	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.8 Dec	1.3
Ireland	na	+ 9.2 Q2	na	na	– 0.7 Dec	+ 9.1 Dec	4.1 Jan	3.6
Luxembourg	na	+ 8.52000	na	na	+ 6.1 Nov	+10.0 Oct	2.7 Dec	2.6
New Zealand	+ 2.8	+ 2.1 Q3	na	na	+ 2.6 Q3	+ 7.4 Q4	5.4 Q4	5.6
Norway	+ 1.0	+ 1.8 Q4	na	na	+ 1.2 Dec	+ 2.6 Jan	3.3 Q4	3.1
Portugal	– 1.0	+ 1.3 Q3	na	na	– 2.2 Dec	nil Dec	4.1 Q4*	3.8

*Not seasonally adjusted. †Oct-Dec; claimant count rate 3.2% in Jan. §Nov-Jan. **EU harmonised rate 8.1% in Jan.

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Prices and wages

Feb 28th 2002
From The Economist print edition

% change at annual rate

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2001	2002	latest	year ago	latest	year ago
Australia	+ 3.1 Q4	+ 5.8	+ 4.1	+ 2.4	– 0.7 Q4	+ 8.4	+ 4.9 Q4	+ 5.4
Austria	+ 1.9 Dec	+ 2.6	+ 2.6	+ 1.5	– 0.4 Jan	+ 3.2	+ 2.7 Dec	+ 2.2
Belgium	+ 2.9 Jan	+ 2.2	+ 2.5	+ 1.5	– 2.6 Dec	+ 7.3	+ 3.1 Q4	+ 1.6
Britain	+ 1.3 Jan	+ 2.7	+ 1.9	+ 1.9	– 0.5 Jan	+ 1.7	+ 3.3 Dec	+ 4.4
Canada	+ 1.3 Jan	+ 3.0	+ 2.6	+ 1.2	– 2.3 Dec	+ 2.4	+ 2.5 Nov	+ 2.6
Denmark	+ 2.5 Jan	+ 2.3	+ 2.3	+ 1.8	+ 0.6 Jan	+ 4.1	+ 4.1 Q4	+ 3.8
France	+ 2.2 Jan	+ 1.2	+ 1.7	+ 1.1	– 1.2 Jan	+ 3.6	+ 4.1 Q3	+ 5.3
Germany	+ 1.7 Feb	+ 2.6	+ 2.4	+ 1.2	+ 0.2 Jan	+ 3.8	+ 2.2 Dec	+ 2.2
Italy	+ 2.4 Jan	+ 3.0	+ 2.5	+ 1.8	– 1.2 Jan	+ 5.4	+ 2.8 Dec	+ 1.7
Japan	– 1.2 Dec	– 0.4	– 0.7	– 0.9	– 0.6 Jan	+ 1.1	– 2.0 Dec	+ 2.0
Netherlands	+ 4.0 Jan	+ 4.2	+ 4.8	+ 2.4	– 2.2 Dec	+ 7.6	+ 4.6 Nov	+ 3.3
Spain	+ 3.1 Jan	+ 3.7	+ 3.6	+ 2.3	+ 0.1 Jan	+ 3.9	+ 3.6 Q3	na
Sweden	+ 2.9 Jan	+ 1.7	+ 2.6	+ 2.0	– 0.8 Dec	+ 3.7	+ 3.0 Nov	+ 2.2
Switzerland	+ 0.5 Jan	+ 1.3	+ 1.0	+ 0.6	– 1.4 Jan	+ 1.4	+ 1.3 2000	+ 0.3
United States	+ 1.1 Jan	+ 3.7	+ 2.9	+ 1.4	– 2.6 Jan	+ 4.8	+ 4.0 Jan	+ 3.9
Euro area	+ 2.5 Jan	+ 2.4	+ 2.6	+ 1.5	– 1.1 Dec	+ 5.4	+ 2.9 Q3	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.3 Jan	+ 3.0	na	na	– 1.3 Jan	+ 4.5	+ 4.3 Q4	+ 5.0
Greece	+ 4.4 Jan	+ 3.4	na	na	+ 2.4 Dec	+ 6.7	na	na
Iceland	+ 8.9 Feb	+ 4.1	na	na	+ 9.6 Feb	+ 5.3	+10.0 Jan	+ 9.3
Ireland	+ 4.2 Dec	+ 5.9	na	na	nil Dec	+ 4.5	+ 8.7 Q3	+ 7.4
Luxembourg	+ 2.3 Jan	+ 2.9	na	na	– 2.1 Dec	+ 5.0	+ 3.4 Aug	+ 7.0
New Zealand	+ 1.7 Q4	+ 4.0	na	na	+ 6.2 Q3	+ 8.4	+ 2.2 Q4	+ 1.6
Norway	+ 1.3 Jan	+ 3.4	na	na	– 8.2 Jan	+ 3.3	+ 4.6 Q3	+ 4.2
Portugal	+ 3.5 Jan	+ 4.4	na	na	– 9.4 Dec	+13.5	+ 2.4 Apr	na

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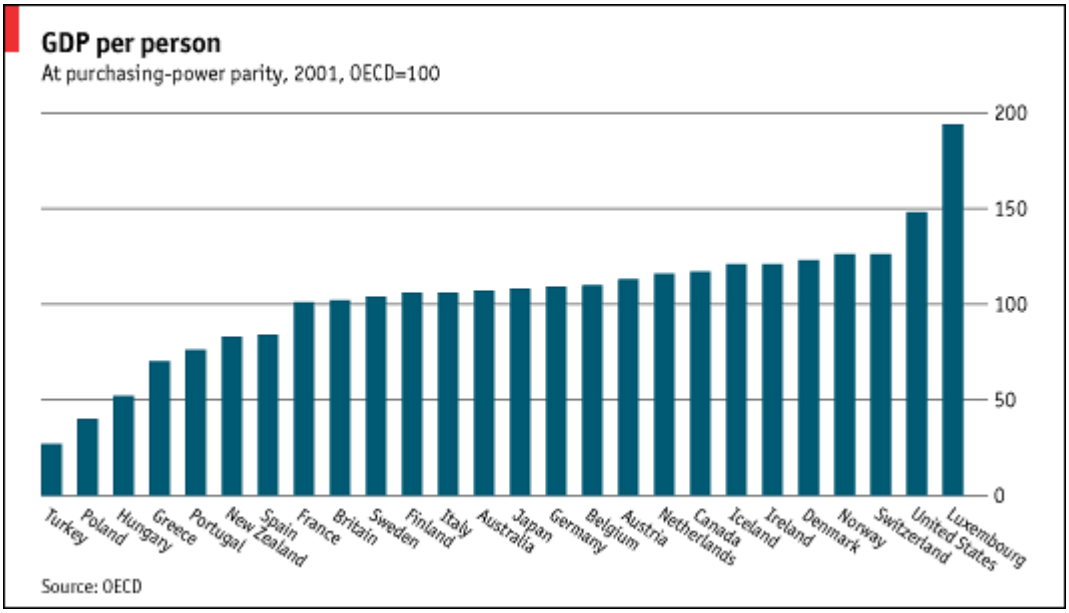
GDP per person

Feb 28th 2002
From The Economist print edition



Luxembourg has the highest GDP per head of OECD countries; Turkey has the lowest. The OECD rankings use purchasing-power-parity (PPP) exchange rates to convert GDP into a common currency. This produces a better comparison of living standards than market exchange rates, since it compares the real cost of a common basket of goods and services across countries, ignoring short-term exchange-rate movements.

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Money and interest rates

Feb 28th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Feb 27th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+21.6	+14.2	Jan	4.33	5.48	4.87	6.02	5.26	6.97
Britain	+ 7.9	+ 6.0	Jan	4.00	5.63	4.60	4.97	4.79	6.13
Canada	+17.7	+ 5.1	Jan	2.10	4.82	3.25	5.37	5.35	6.86
Denmark	+ 6.8	+ 8.7	Jan	3.70	5.02	4.30	5.12	5.01	7.03
Japan	+16.0	+ 3.6	Jan	0.06	0.31	0.09	1.50	1.32	1.62
Sweden	+ 7.1	+ 6.2	Nov	3.97	3.96	4.84	5.32	4.80	5.52
Switzerland	+ 4.1	+ 5.0	Jan	1.70	3.43	2.49	3.49	3.42	4.61
United States	+ 7.8	+11.5	Jan	1.78	4.95	2.94	4.88	5.02	6.77
Euro area†	+ 6.6	+ 7.9	Jan	3.37	4.68	3.88	4.90	4.69	5.67

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.37%, Japan No.237 1.54%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Feb 28th 2002
From The Economist print edition

1995=100

	Feb 19th	Feb 26th*	% change on one month	% change on one year
Dollar index				
All items	67.5	67.9	+ 1.0	- 3.7
Food	68.2	68.2	- 0.1	- 2.2
Industrials				
All	66.6	67.4	+ 2.6	- 5.8
Nfa†	66.0	67.5	+ 4.1	+ 4.4
Metals	67.1	67.4	+ 1.5	-13.0
Sterling index				
All items	74.5	75.1	- 0.0	- 2.7
Euro index				
All items	101.5	102.8	+ 0.2	+ 1.8
Yen index				
All items	95.9	97.0	+ 1.7	+11.2
Gold				
$ per oz	298.25	295.90	+ 6.2	+10.2
West Texas Intermediate				
$ per barrel	20.69	21.55	+11.8	-23.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Feb 28th 2002
From The Economist print edition

Market indices

	Feb 27th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,358.6	3,424.4	3,331.2	- 0.7	- 1.9	nil	+ 0.6
Austria (ATX)	1,230.9	1,241.3	1,114.4	- 0.1	-29.1	+ 7.9	+ 4.7
Belgium (Bel 20)	2,730.5	2,811.1	2,622.4	+ 1.6	-25.8	- 1.9	- 4.7
Britain (FTSE 100)	5,178.4	5,323.8	5,024.1	+ 3.1	-25.3	- 0.7	- 3.4
Canada (Toronto Composite)	7,646.9	7,870.3	7,418.1	+ 2.9	-32.9	- 0.5	- 1.3
Denmark (KBX)	228.7	228.7	216.8	+ 3.3	-24.2	+ 1.8	- 1.2
France (SBF 250)	2,898.9	3,028.4	2,782.5	+ 4.2	-34.0	- 2.8	- 5.6
(CAC 40)	4,424.7	4,682.8	4,239.0	+ 4.4	-36.1	- 4.3	- 7.1
Germany (Xetra DAX)	4,960.2	5,318.7	4,745.6	+ 3.8	-38.5	- 3.9	- 6.7
Italy (BCI)	1,396.9	1,455.9	1,344.9	+ 3.9	-36.0	- 2.5	- 5.4
Japan (Nikkei 225)	10,573.1	10,942.4	9,420.9	+ 7.5	-72.8	+ 0.3	- 2.3
(Topix)	1,007.2	1,080.7	922.5	+ 5.3	-65.1	- 2.4	- 5.0
Netherlands (AEX)	492.7	507.6	478.3	+ 2.6	-29.8	- 2.8	- 5.7
Spain (Madrid SE)	811.1	838.0	773.2	+ 4.5	-29.2	- 1.6	- 4.5
Sweden (Affarsvarlden Gen)	219.7	236.8	209.9	+ 4.7	-45.1	- 5.1	- 5.1
Switzerland (Swiss Market)	6,319.9	6,421.6	6,105.2	+ 1.9	-24.9	- 1.5	- 4.3
United States (DJIA)	10,127.6	10,259.7	9,618.2	+ 1.9	-13.6	+ 1.1	+ 1.1
(S&P 500)	1,109.9	1,172.5	1,080.2	+ 1.1	-27.3	- 3.3	- 3.3
(Nasdaq Comp)	1,751.9	2,059.4	1,716.2	- 1.3	-65.3	-10.2	-10.2
Europe (FTSE Eurotop 300)*	1,229.0	1,271.9	1,185.5	+ 3.7	-27.9	- 2.5	- 5.4
Euro area (FTSE Ebloc 100)*	1,060.7	1,121.6	1,013.0	+ 4.5	-31.6	- 4.6	- 7.4
World (MSCI)†	968.9**	1,023.5	937.0	+ 2.4	-33.1	na	- 3.5
World bond market (Salomon)‡	433.0	443.1	430.3	- 0.4	- 5.8	na	- 1.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms. **Prov.

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Trade, exchange rates and budgets

Feb 28th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2001	2002	Exchange rate trade-weighted† Feb 27th	year ago	Currency units per $ Feb 27th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.0	Dec	− 8.5	Q3	− 2.2	− 2.9	74.9	71.6	1.94	1.91	2.75	1.68	1.44	0.1
Austria	− 4.7	Nov	− 3.6	Dec	− 2.3	− 2.0	100.0	100.5	1.16§	1.09	1.64	–	0.86	nil
Belgium	+ 10.9	Dec	+ 12.4	Sep	+ 4.0	+ 4.3	98.6	99.4	1.16§	1.09	1.64	–	0.86	nil
Britain	− 48.4	Dec	− 17.7	Q3	− 1.5	− 2.1	107.5	103.6	0.71	0.69	–	0.61	0.52	1.1
Canada	+ 41.3	Dec	+ 23.9	Q3	+ 2.8	+ 1.9	75.4	78.1	1.61	1.53	2.28	1.39	1.20	2.8
Denmark	+ 6.8	Dec	+ 4.1	Dec	+ 2.8	+ 2.3	101.6	102.2	8.60	8.11	12.2	7.43	6.39	2.0
France	+ 2.9	Dec	+ 26.8	Dec	+ 1.6	+ 1.5	101.2	102.1	1.16§	1.09	1.64	–	0.86	-1.5
Germany	+ 84.0	Dec	+ 10.2	Dec	− 0.4	− 0.1	98.2	99.1	1.16§	1.09	1.64	–	0.86	-2.5
Italy	+ 8.7	Dec	+ 1.9	Nov	− 0.2	+ 0.2	72.2	72.9	1.16§	1.09	1.64	–	0.86	-1.4
Japan	+ 70.2	Dec	+ 91.2	Dec	+ 2.1	+ 2.2	126.9	142.2	135	117	191	116	–	-6.4
Netherlands	+ 21.4	Dec	+ 11.8	Q4	+ 3.6	+ 3.7	97.5	98.4	1.16§	1.09	1.64	–	0.86	1.1
Spain	− 38.4	Nov	− 15.5	Nov	− 2.5	− 2.3	73.9	74.5	1.16§	1.09	1.64	–	0.86	nil
Sweden	+ 12.9	Jan	+ 5.9	Dec	+ 2.6	+ 2.5	76.6	77.9	10.49	9.83	14.9	9.07	7.80	3.8
Switzerland	+ 1.6	Jan	+ 25.4	Q3	+10.0	+10.1	111.5	107.5	1.71	1.67	2.42	1.48	1.27	na
United States	−426.6	Dec	−430.7	Q3	− 4.0	− 4.1	124.9	115.7	–	–	1.42	0.86	0.74	0.6
Euro area	+ 43.4	Dec	− 15.6	Dec	− 0.2	nil	77.8	79.9	1.16	1.09	1.64	–	0.86	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.1	Dec	+ 8.3	Dec	na	na	77.6	78.4	1.16§	1.09	1.64	–	0.86	3.7
Greece	− 19.3	Oct**	− 8.2	Oct	na	na	57.3	57.6	1.16	1.09	1.64	–	0.86	0.2
Iceland	− 0.2	Nov	− 0.7	Q3	na	na	na	na	101	87	143	87.3	75.1	-0.2
Ireland	+ 31.4	Dec	− 1.2	Q3	na	na	86.6	88.3	1.16§	1.09	1.64	–	0.86	3.2
Luxembourg	− 2.8	Nov	+ 0.4	Q3	na	na	98.6	99.4	1.16§	1.09	1.64	–	0.86	5.3
New Zealand	+ 0.4	Dec	− 0.2	Q3	na	na	82.7	79.9	2.39	2.33	3.39	2.07	1.78	1.3
Norway	+ 24.5	Jan	+ 23.8	Dec	na	na	98.8	93.1	8.92	8.95	12.6	7.71	6.63	14.3
Portugal	− 14.0	Nov	− 10.4	Nov	na	na	88.9	89.7	1.16§	1.09	1.64	–	0.86	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Now using euro only. **Corrected.

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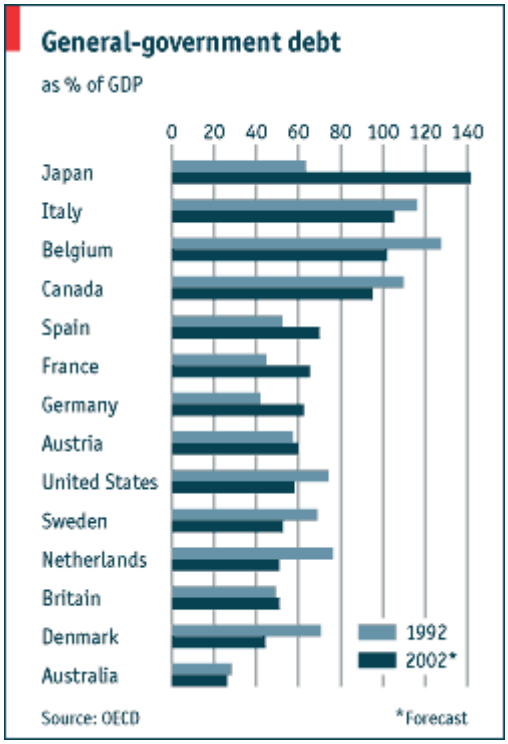
General-government debt

Feb 28th 2002
From The Economist print edition



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Overview

Feb 28th 2002
From The Economist print edition

Malaysia's GDP shrank by 0.5% in the 12 months to the fourth quarter. The Malaysian economy is suffering from a sharp decline in manufacturing, which contracted by 8.5% during the same period, after rocketing by 16.4% in the previous year.

South Africa's economy grew by 1.8% in the year to the fourth quarter.

Industrial output in most **East Asian** countries is on the upswing. Although it declined by 11.3% in the **Philippines** in the year to December, it rose in the year to January by 10.2% in **South Korea** and by 12.0% in **Taiwan**. **Singapore's** factory output rose by 4.7% in the year to January; consumer prices fell by 1.1%.

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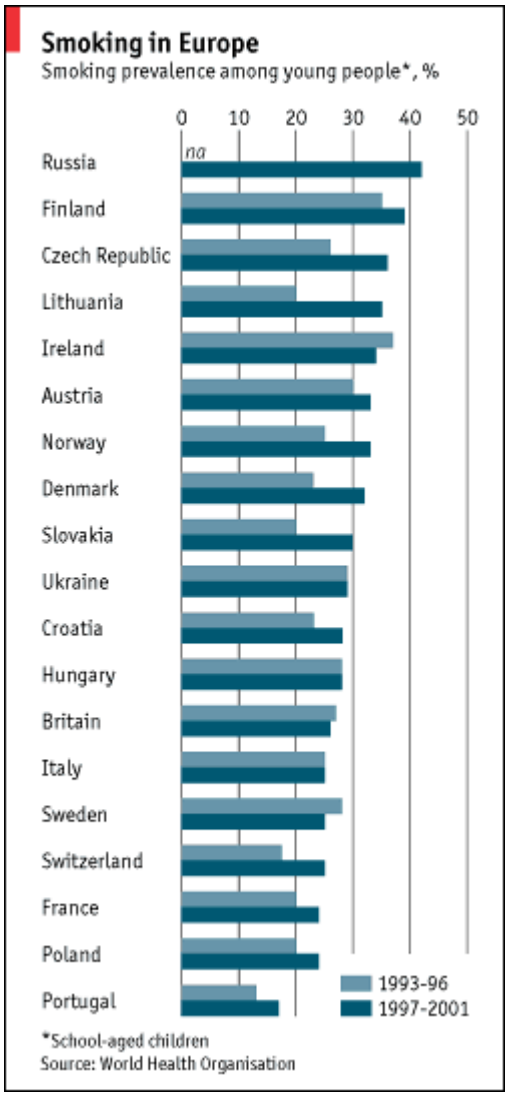
Smoking in Europe

Feb 28th 2002
From The Economist print edition

Almost a third of Europe's young people smoke, according to a European Report on Tobacco Control Policy published by the World Health Organisation. Only a few countries, including Ireland and Sweden, have made much progress in stamping out smoking among schoolchildren; in many countries, such as the Czech Republic and Denmark, the rate of smoking among youth has risen by more than a third since 1993.



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Economy

Feb 28th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 9.9	Jan	– 1.0	Jan	+24.1	Jan	+20.5	2000	211.8	Nov
Hong Kong	– 0.3	Q3	– 7.1	Q3	– 3.5	Jan	–11.8	Jan	+ 8.8	Q3	111.3	Jan
India	+ 5.3	Q3	+ 1.6	Dec	+ 5.2	Dec	– 5.5	Jan	– 0.7	Q3	46.4	Jan
Indonesia	+ 4.1	Q4	+ 2.0	Q2	+14.4	Jan	+25.1	Dec	+ 3.8	Q3	27.3	Dec
Malaysia	– 0.5	Q4	– 7.7	Dec	+ 1.1	Jan	+14.0	Dec	+ 7.4	Q3	30.5	Dec
Philippines	+ 3.8	Q4	–11.3	Dec‡	+ 3.8	Jan	+ 2.6	Dec	+ 4.9	Nov	14.0	Jan
Singapore	– 7.0	Q4	+ 4.7	Jan	– 1.1	Jan	+ 5.7	Jan	+22.1	Q3	75.3	Jan
South Korea	+ 1.8	Q3	+10.2	Jan	+ 2.6	Feb	+ 9.4	Jan	+ 9.9	Nov	104.3	Jan
Taiwan	– 2.7	Q4	+12.0	Jan	– 1.7	Jan	+17.5	Jan	+19.0	Q4	123.6	Jan
Thailand	+ 1.5	Q3	+ 1.3	Dec	+ 0.8	Jan	+ 2.6	Jan	+ 6.3	Jan	32.4	Dec
Argentina	– 4.9	Q3	–17.2	Jan	+ 0.6	Jan	+ 6.3	Dec	– 6.8	Q3	14.6	Dec
Brazil	+ 0.5	Q3	– 6.1	Dec	+ 9.8	Jan	+ 3.3	Jan	–22.1	Jan	35.8	Dec
Chile	+ 2.6	Q3	– 1.9	Dec	+ 2.2	Jan	+ 1.3	Jan	– 0.9	Q4	14.2	Dec
Colombia	+ 1.0	Q3	– 1.4	Dec	+ 7.4	Jan	+ 0.3	Dec	– 1.2	Q3	10.1	Jan
Mexico	– 1.6	Q4	– 3.6	Dec	+ 4.8	Jan	– 9.5	Jan	–16.6	Q3	44.7	Dec
Peru	+ 4.1	Dec	– 2.1	Dec	– 0.8	Jan	– 0.1	Dec	– 1.1	Q4	8.4	Jan
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+12.3	Jan	+13.0	Q3	+ 4.4	Q4	9.4	Nov
Egypt	+ 4.6	2000†	+ 9.4	2000†	+ 2.2	Nov	– 8.5	Sep	nil	Q3	13.3	Nov
Israel	– 3.4	Q4	– 8.5	Dec	+ 3.1	Jan	– 7.0	Jan	– 3.6	Q3	23.1	Jan
South Africa	+ 1.8	Q4	+ 5.4	Dec	+ 4.6	Dec	+ 4.1	Dec	+ 0.3	Q3	6.0	Dec
Turkey	– 7.1	Q3	– 9.4	Dec	+73.2	Jan	–11.3	Nov	+ 2.8	Nov	19.1	Jan
Czech Republic	+ 3.2	Q3	+ 7.0	Dec	+ 3.7	Jan	– 3.1	Jan	– 2.6	Q3	14.5	Jan
Hungary	+ 3.7	Q3	+ 1.6	Dec	+ 6.6	Jan	– 1.6	Dec	– 0.5	Dec	10.3	Jan
Poland	+ 0.8	Q3	– 1.4	Jan	+ 3.5	Jan	–11.7	Dec	– 7.0	Dec	25.4	Jan
Russia	+ 4.9	Q3	+ 2.2	Jan	+19.2	Jan	+49.7	Dec	+41.5	Q3	32.3	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 7.7	Sep	+ 2.5	Jan	– 1.0	Nov	+ 0.3	2001†	3.6	Dec
Saudi Arabia	+ 4.5	2000	na		nil	Nov	+50.9	2000	+14.3	2000	17.6	Dec

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Feb 28th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 27th		Dec 31st 2000	
	Feb 27th	year ago	Feb 27th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.7	na	1,604.9	+2.1	– 6.3	– 6.3
Hong Kong	7.80	7.80	11.0	2.03	10,648.7	–0.9	– 6.6	– 6.6
India	48.7	46.5	69.0	6.26	3,705.7	+4.1	+ 13.6	+ 12.4
Indonesia	10,183	9,853	14,427	17.23	454.5	–0.9	+ 15.9	+ 18.4
Malaysia	3.80	3.80	5.38	3.28	703.9	–2.6	+ 1.1	+ 1.1
Philippines	51.3	48.3	72.7	8.00	1,403.7	–3.4	+ 20.2	+ 20.8
Singapore	1.84	1.74	2.60	0.94	1,702.4	–1.6	+ 4.9	+ 5.4
South Korea	1,322	1,254	1,873	4.47	822.1	+5.8	+ 18.5	+ 17.7
Taiwan	35.1	32.4	49.7	2.55	5,696.1	+0.1	+ 2.6	+ 2.4
Thailand	43.8	43.1	62.1	2.31	372.2	–1.1	+ 22.5	+ 23.7
Argentina	2.12**	1.00	3.00	na	380.0	–2.3	+ 28.6	– 39.2
Brazil	2.38	2.04	3.37	18.80	14,178.0	+6.6	+ 4.4	+ 1.3
Chile	674	574	956	4.08*	5,275.8	+0.5	– 2.3	– 4.2
Colombia	2,310	2,264	3,273	10.82	1,087.7	+1.0	na	na
Mexico	9.09	9.71	12.9	7.28	6,795.9	+3.2	+ 6.6	+ 7.6
Peru	3.47	3.52	4.92	2.28	1,285.0	+1.1	+ 9.3	+ 8.4
Venezuela	1,050	704	1,487	34.54	7,051.9	+3.6	+ 7.3	– 22.5
Egypt	4.63	3.88	6.56	7.23	5,255.4	+0.3	– 0.3	– 1.5
Israel	4.61	4.11	6.53	2.22	412.9	+3.1	– 7.6	– 11.5
South Africa	11.4	7.73	16.2	10.24	10,945.6	+2.5	+ 4.8	+ 10.2
Turkey	1,410,000	925,000	1,997,688	52.00	11,186.8	+0.9	– 18.8	– 16.2
Czech Republic	36.7	37.7	52.0	4.30	417.7	+0.4	+ 5.9	+ 2.5
Hungary	283	289	402	8.45	7,947.4	+0.1	+ 11.4	+ 8.0
Poland	4.19	4.05	5.94	10.32	15,305.0	+0.7	+ 9.9	+ 3.6
Russia	31.0	28.7	43.9	25.00	291.6†	+3.2	+ 13.9	+ 12.1
EMF (MSCI)‡	1.00	1.00	1.42	na	329.1††	+0.6	na	+ 3.7
EMBI+§	1.00	1.00	1.42	na	212.6	+0.9	na	+ 6.1

*Inflation adjusted. †In $ terms. ‡Emerging Mkts Free. §J.P. Morgan Chase's Emerging Mkts Bond Index Plus. **Fixed official rate 1.40. ††26th.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; JP Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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